March 4, 2016

Alabama 9-1-1 Board
Reference: AL-NG911-RFP-16-001
1 Commerce Street
Suite 610
Montgomery, AL 36104

Ms. Missildine,

On behalf of FairPoint Business Services LLC ("FairPoint" or "FairPoint Communications" herein), FairPoint is pleased to submit our response to the Alabama 9-1-1 Board (AL9-1-1, the Board) for this NG 9-1-1 solution for the ANGEN network.

FairPoint is a proven provider of NG 9-1-1 services. Our team has a record of efficiently and effectively applying technical, engineering and project management disciplines in developing, deploying and maintaining NG 9-1-1 systems.

FairPoint's NG 9-1-1 dedicated support team has spent the past 8 years researching the emerging 9-1-1 industry for the products, services, tools and personnel to provide the most advanced NG 9-1-1 solution that will adapt and grow as your needs change. We have installed and maintained i3 aligned turn-key statewide solutions for NG 9-1-1 in Maine and Vermont that are similar to that requested by Alabama. We have engaged and will use the same key vendors from our Maine and Vermont solutions to implement and support the new Alabama system: Solacom and GeoComm. FairPoint will also be using the same FairPoint NG 9-1-1 team with a proven track record of great success.

While we believe our response to this RFP, including financial information supplied with this proposal, is thorough, complete and accurate, there are certain aspects of the 9-1-1 landscape in Alabama that are not entirely clear from this RFP or will be impacted by certain decisions made by the Alabama Board related to this RFP and will require further investigation. Our proposed architecture may be affected once these aspects are revealed; however, it should not substantially alter our design proposal. Some changes may have an impact on pricing. In all cases where we made assumptions on the RFP, we have provided language in our proposal to explain our reasoning.

Additionally, in compliance with your bid requirements as stated in the RFP, FairPoint acknowledges its understanding of the general information presented in Section 1 and agrees with any requirements and conditions listed in Section 1. FairPoint is willing to provide the requested products and/or services subject to the terms and conditions set forth in the RFP as further described in our response and agrees to the mandatory contract clauses. FairPoint has also included additional proposed contract clauses and proposed contract revisions in our response.

FairPoint Communications and its affiliated companies have a long and successful history of providing efficient, reliable, robust state-wide networks and comprehensive oversight of critical infrastructures including fully managed Emergency Service solutions. FairPoint and its affiliates have over 17 years of experience in deploying statewide 9-1-1. In 1998, we worked with the State of Maine (through our predecessor companies) and deployed Enhanced 9-1-1. FairPoint entities operate as the Incumbent Local Exchange Carrier in 17 States across the country, including a small property in Alabama, as well as most of the footprint for Maine, New Hampshire and Vermont where we provide the core 9-1-1 networking. For the State of Maine, we replaced our statewide E9-1-1 system in 2014 with a statewide, complete turn-key i3 compliant Next Generation 9-1-1 system with 26 PSAPs. In 2015, we successfully implemented a new statewide i3 compliant NG9-1-1 System in Vermont. We are proposing to use the same subcontractors we have used in Maine and Vermont in deploying a NENA i3-compliant ESInet for the State of Washington. In the Florida panhandle FairPoint implemented and has supported a regional IP-enabled 9-1-1 system since July 2011.

FairPoint Communications looks forward to your review of our proposal and the successful implementation that will follow. Joseph Weisenburger is your principal contact for this response. Mr. Weisenburger, your Senior Account Manager, can be reached at:

Joseph Weisenburger - Senior Manager - Government and Education
FairPoint Communications
770 Elm St. Floor 1
Manchester, NH 03101
jweisenburger@fairpoint.com
603.656.4023 office | 603.369.0240 cell

If you have any questions regarding this response, please contact our Senior Account Manager, Joseph Weisenburger, at jweisenburger@fairpoint.com.

FairPoint is committed, without reservation, to provide responsive, quality support for this contract.

Sincerely,

FairPoint Business Services LLC
By: Paul Sunu
Its: Chief Executive Officer

ACTION BY UNANIMOUS WRITTEN CONSENT
OF THE SOLE MEMBER AND MANAGER OF
FAIRPOINT BUSINESS SERVICES LLC

The undersigned, being the sole member and manager (the "Member") of FairPoint Business Services LLC (the "Company"), a Delaware limited liability company, hereby consents to the following resolution in accordance with the Delaware Limited Liability Company Act, 6 Del. C. Section 18-101, *et seq*., and the Limited Liability Company Agreement of the Company:

AUTHORIZATION OF SIGNATORIES

WHEREAS, the Member has the discretion to manage, control and make decisions affecting the business and affairs of the Company and to take actions as it deems necessary or appropriate to accomplish the purposes of the Company pursuant to the Company's Limited Liability Company Agreement; and

WHEREAS, it is desirable for the Company to authorize certain representatives of the Company to enter into and execute contracts on behalf of the Company with the State of Alabama including, without limitation, in connection with the proposal for the Alabama 9-1-1 Board Next Generation 911 Systems and Services RFP AL-NG911-RFP-16-001;

NOW THEREFORE BE IT RESOLVED, that the following individuals be, and hereby are, authorized to make, enter into, sign and deliver contracts on behalf of the Company with the State of Alabama:

Peter G. Nixon
Ajay Sabherwal
Paul H. Sunu

RESOLVED FURTHER, that the department or agency of the State of Alabama to which a copy of these resolutions has been delivered by the Company be, and hereby is, authorized and entitled to rely upon such resolutions for all purposes until it shall have received written notice of the revocation or amendment of these resolutions by the Member.

FURTHER ACTIONS

RESOLVED FURTHER, that the officers of the Company, acting together or alone, be, and each of them hereby is, authorized and directed in the name and on behalf of the Company (a) to do and perform or cause to be done and performed all such acts and things as such officer or officers shall deem necessary, advisable or appropriate to give effect to the intent and purposes of the foregoing resolutions and (b) to execute and deliver all such agreements, amendments, certificates, directions, representations, transfers, assurances and other instruments and documents of every character and to do and perform or cause to be done and performed such other and further acts and things as such officer or officers shall deem necessary, advisable or appropriate to give effect to the intent and purposes of the foregoing resolutions;

RESOLVED FURTHER, that any actions previously taken by the Member or officers of the Company in connection with the transactions contemplated as described above are hereby approved, ratified and confirmed; and

RESOLVED FURTHER, that the undersigned hereby waives any and all irregularity of notice in the time and place of meeting and consent to the transaction of all business represented by this Action by Unanimous Written Consent.

IN WITNESS WHEREOF, this Action by Unanimous Written Consent shall be deemed effective as of the 26th day of February, 2016.

MEMBER:

FairPoint Communications, Inc.

By: Shirley J. Linn

Name: Shirley J. Linn

Title: Executive Vice President, General Counsel and Secretary

AL-NG911-RFP-16-001 Next Gene

Attachment B - Business Proposal

<u>Instructions</u>

Tab Name
Business Proposal

ration 911 Systems and Services

Instructions
Please fill in the cells shaded yellow and indicate if any attachments are included in the response to each item. Some items require a yes/no answer and an explanation if the answer is no.

AL-NG911-RFP-16-001 ATTACHMENT B - BUSINESS PROPOSAL

Respondent Name: **FairPoint Business Services, LLC.**

Please Complete Yellow Shaded Regions

2.3.1 GENERAL (OPTIONAL)

	Enter your response below. Please indicate if attachments are included.
The Respondent may use this optional section of the business proposal to introduce or summarize any information the Respondent deems relevant or important to the State's successful acquisition of the products and/or services requested in this RFP.	FairPoint Communications has a long and successful history of providing efficient, reliable, robust state-wide networks, and comprehensive oversight of critical infrastructures including fully managed Emergency Service solutions. For the State of Maine, we replaced our statewide E9-1-1 system in 2014 with a statewide, complete turn-key Next Generation 9-

2.3.2 RESPONDENT'S COMPANY STRUCTURE

	Enter your response below. Please indicate if attachments are included.
The legal form of the Respondent's business organization, the state in which formed (accompanied by a certificate of authority), the types of business ventures in which the organization is involved, and a chart of the organization are to be included in this section. If the organization includes more than one product division, the division responsible for the development and marketing of the requested products and/or services in the United States must be described in more detail than other components of the organization.	FairPoint Business Services LLC is a limited liability company incorporated in Delaware on 6/24/2011. FairPoint Communications, Inc. is the sole member and manager of FairPoint Business Services LLC and also the parent company of the FairPoint Communications corporate family. FairPoint Business services LLC currently operates as a CLEC in several states. FairPoint Communications and its affiliated companies have a long and successful history of providing efficient, reliable, robust state-wide networks, and comprehensive oversight of critical infrastructures including fully

2.3.3 COMPANY FINANCIAL INFORMATION

	Enter your response below. Please indicate if attachments are included.
This section must include the Respondent's financial statement, including an income statement and balance sheet, for each of the two most recently completed fiscal years. The financial statements must demonstrate the Respondent's financial stability. If the financial statements being provided by the Respondent are those of a parent or holding company, additional financial information should be provided for the entity/organization directly responding to this RFP.	FairPoint has provided its Annual Report for the last 5 years. Additional information can be found at the following website. http://phx.corporate-ir.net/phoenix.zhtml?c=122010&p=irol-irhome Revenues 2014 2013

2.3.4 INTEGRITY OF COMPANY STRUCTURE AND FINANCIAL REPORTING

	Enter your response below. Please indicate if attachments are included.
This section must include a statement indicating that the CEO and/or CFO has taken personal responsibility for the thoroughness and correctness of any and all financial information supplied with this proposal. The particular areas of interest to the Board in considering corporate responsibility include the following items: separation of audit functions from corporate boards and board members, if any, the manner in which the firm assures board integrity, and the separation of audit functions and consulting services. The State of Alabama will consider the information offered in this section to determine the responsibility of the Respondent. The Sarbanes Oxley Act of 2002, H.R. 3763, is NOT directly applicable to this procurement; however, its goals and objectives may be used as a guide in the determination of corporate responsibility for financial reports.	Please refer to the FairPoint transmittal letter. Mr. Sunu is a duly authorized representative of bidder. Regardless of any language in the RFP or any interpretation of the signature block, this signature is not an intent to take on personal liability or to sign in an individual capacity, but only on behalf of FairPoint Communications.

2.3.5 CONTRACT TERMS/CLAUSES

The contract resulting from this RFP will contain both mandatory and non-mandatory clauses. Mandatory clauses are non-negotiable while non-mandatory clauses are highly desirable. **Attachment A** contains a sample contract that will be similar to the one resulting from this RFP. Please indicate your acceptance of the following mandatory/non-mandatory clauses within the sample contract. If a non-mandatory clause is not acceptable as worded, please indicate in the "Additional Contract Considerations" and suggest a specific alternative wording to address issues raised by the specific clause in the explanation space provided.
To reiterate, it's the Board's strong desire to not deviate from the contract provided in the attachment and as such the Board reserves the right to reject any and all of these requested changes. Failure to include a clear, specific, unequivocal agreement to these clauses may result in disqualification of the proposal from further evaluation.

Mandatory Clauses	Acceptance? (Yes / No)	If No, Explanation
Duties of Contractor, Rate of Pay, and Term of Contract	Yes	
Authority to Bind Contractor	Yes	
Compliance with Laws	Yes	
Drug-free Workplace Provision and Certification	Yes	
Employment Eligibility Verification	Yes	
Funding Cancellation	Yes	
Governing Laws	Yes	
Indemnification	Yes	
Information Technology	Yes	
Non-discrimination Clause	Yes	
Ownership of Documents and Materials	Yes	
Payments	Yes*	
Penalties/Interest/Attorney's Fees	Yes	
Termination for Convenience	Yes	
Non-collusion and Acceptance	Yes	

	Enter your response below. Please indicate if attachments are included.
Additional Contract Considerations ***Please note:*** *The Board will only review or negotiate changes to contract clauses clearly identified in the transmittal letter. If there are no contract clauses identified, Respondent is considered to have accepted the clauses as they are currently written.*	***FairPoint takes exception to this provision and in the alternative has attached a redlined version of the sample contract presented by the Board in the RFP as Exhibit 1 to this Attachment B. While FairPoint accepts the mandatory provisions for the most part FairPoint has proposed certain revisions, including additions and deletions, to non-mandatory provisions in the contract. Additionally, FairPoint proposes that invoices be due thirty**

2.3.6 REFERENCES

The Respondent must include a list of at least three (3) clients for whom the Respondent has provided products and/or services that are the same or similar to those products and/or services requested in this RFP. Any state government for whom the Respondent has provided these products and services should be included; also to be included should be clients with locations near Alabama as site visits may be arranged. Information provided should include the name, address, and telephone number of the client facility and the name, title, and phone/fax numbers of a person who may be contacted for further information.

Reference One

	Enter your response below.
Legal Name of Company or Governmental Entity	**State of Maine**
Industry of Company	**9-1-1 authority for the State of Maine**
Mailing Address	**101 Second Street, Hallowell, ME 04347**
Telephone Number	**(207) 287-3831**
Contact Name	**Maria Jacques**
Title	**Director**
Telephone/Fax Number	**(207) 287-3831**
E-mail Address	**maria.jacques@maine.gov**
Time period in which services were provided	**2014**
Please describe the service provided to this reference	**The NG9-1-1 network connects two NG9-1-1 Data Centers, two training centers, 26 PSAPs, the State of Maine**

Reference Two

	Enter your response below.
Legal Name of Company or Governmental Entity	**State of Vermont 9-1-1 Board**
Industry of Company	**9-1-1 authority for the State of Vermont**
Mailing Address	**100 State Street Montpelier, VT 05620**
Telephone Number	**(802) 828-2395**
Contact Name	**Barb Neal**
Title	**Executive Director**
Telephone/Fax Number	**(802) 828-2395**
E-mail Address	**David.tucker@state.vt.us**
Time period in which services were provided	**2014**
Please describe the service provided to this reference	**In November, 2014 the State of Vermont 9-1-1 Board signed a contract with FairPoint to provide a turn-key, fully**

Reference Three

	Enter your response below.
Legal Name of Company or Governmental Entity	**Iowa Homeland Security and Emergency Management Department**
Industry of Company	**9-1-1 authority for the state of Iowa**
Mailing Address	**7105 NW 70th Ave Camp Dodge Bldg W-4 Johnston, IA 51031**
Telephone Number	**515-323-4384**
Contact Name	**Jon Paoli**
Title	**GIS/IT Specialist**
Telephone/Fax Number	**515-323-4384**
E-mail Address	**jonathan.paoli@iowa.gov**
Time period in which services were provided	**2012 - current**

Please describe the service provided to this reference	**GeoComm has a long history of providing 9-1-1-related GIS services to local counties and jurisdictions in Iowa, and has more recently been instrumental in the development of an NG9-1-1 system for the state. GeoComm first worked with the Iowa Homeland Security and Emergency Management Department (HSEMD) to establish a set of NG9-1-1 GIS standards to normalize locally-maintained GIS datasets across the state. As part of this development, GeoComm and HSEMD co-hosted a series of information webinars to educate local stakeholders about NG9-1-1 and the GIS standards being developed at the time in the state of Iowa. As NG9-1-1 efforts continued, GeoComm worked with HSEMD to develop new workflows at**

Please identify all references for the past five (5) years for whom your company has provided the same or similar services as those requested in this RFP, but the contract was terminated for cause or for convenience.

Reference One	Enter your response below.
Legal Name of Company or Governmental Entity	**Not Applicable**
Industry of Company	**Not Applicable**
Mailing Address	**Not Applicable**
Telephone Number	**Not Applicable**
Contact Name	**Not Applicable**
Title	**Not Applicable**
Telephone/Fax Number	**Not Applicable**
E-mail Address	**Not Applicable**
Time period in which services were provided	**Not Applicable**
Please describe the service provided to this reference	**Not Applicable**
Provide reason(s) for loss or termination	**Not Applicable. FairPoint does not have any contract terminations for 9**

Reference Two	Enter your response below.
Legal Name of Company or Governmental Entity	**Not Applicable**
Industry of Company	**Not Applicable**
Mailing Address	**Not Applicable**
Telephone Number	**Not Applicable**
Contact Name	**Not Applicable**
Title	**Not Applicable**
Telephone/Fax Number	**Not Applicable**
E-mail Address	**Not Applicable**
Time period in which services were provided	**Not Applicable**
Please describe the service provided to this reference	**Not Applicable**
Provide reason(s) for loss or termination	**Not Applicable. FairPoint does not have any contract terminations for 9**

Reference Three	Enter your response below.
Legal Name of Company or Governmental Entity	**Not Applicable**
Industry of Company	**Not Applicable**
Mailing Address	**Not Applicable**
Telephone Number	**Not Applicable**
Contact Name	**Not Applicable**
Title	**Not Applicable**
Telephone/Fax Number	**Not Applicable**
E-mail Address	**Not Applicable**

Time period in which services were provided	**Not Applicable**
Please describe the service provided to this reference	**Not Applicable**
Provide reason(s) for loss or termination	**Not Applicable. FairPoint does not have any contract terminations for 9**

Corporate Litigation

	Enter your response below. Please indicate if attachments are included.
Does your company have any pending litigation regarding contract disputes?	**FairPoint provides services to hundreds of thousands of residential and business customers. FairPoint does not**

2.3.7 REGISTRATION TO DO BUSINESS

	Registered? (Yes / No)	**If No, Explanation**
Respondents providing the products and/or services required by this RFP must be registered and in good standing with the Alabama Secretary of State. The requirement is applicable to all limited liability partnerships, limited partnerships, corporations, S-corporations, nonprofit corporations, and limited liability companies. Please indicate the status of registration.	**Yes**	

2.3.8 AUTHORIZING DOCUMENT

	Enter your response below. Please indicate if attachments are included.
Respondent personnel signing the Transmittal Letter of the proposal must be legally authorized by the organization to commit the organization contractually. This section shall contain proof of such authority. A copy of corporate bylaws or a corporate resolution adopted by the board of directors indicating this authority will fulfill this requirement.	FairPoint Business Services LLC is a limited liability company that is member managed by its sole member FairPoint Communications, Inc. Attached as Exhibit 2 is a copy of the signature authorization for this bid response.

2.3.9 SUBCONTRACTORS

	Enter your response below. Please indicate if attachments are included.
The Respondent is responsible for the performance of any obligations that may result from this RFP, and shall not be relieved by the non-performance of any subcontractor. Any Respondent’s proposal must identify all subcontractors and describe the contractual relationship between the Respondent and each subcontractor. Either a copy of the executed subcontract or a letter of agreement over the official signature of the firms involved must accompany each proposal. Any subcontracts entered into by the Respondent must be in compliance with all State statutes, and will be subject to the provisions thereof. For each portion of the proposed products or services to be provided by a subcontractor, the technical proposal must include the identification of the functions to be provided by the subcontractor and the subcontractor's related qualifications and experience. The combined qualifications and experience of the Respondent and any or all subcontractors will be considered in the Board's evaluation. The Respondent must furnish information to the Board as to the amount of the subcontract, the qualifications of the subcontractor for guaranteeing performance, and any other data that may be required by the State. All subcontracts held by the Respondent must be made available upon request for inspection and examination by appropriate Board officials, and such relationships must meet with the approval of the Board. The Respondent must furnish the following information for their use of subcontractors: A. Each subcontractor's name, address, and state of incorporation that are proposed to be used in providing the required products and services B. Each subcontractor's area(s) of responsibility under the proposal C. The anticipated dollar amount for each subcontract D. Each subcontractor's form of organization E. An indication from each subcontractor of a willingness to carry out their responsibilities (this assurance in no way relieves the Respondent of any responsibilities in responding to this RFP or in completing the commitments documented in this proposal) F. The qualifications of each subcontractor for guaranteeing performance G. Identification of the functions to be provided by the subcontractor and the subcontractor's related qualifications and experience in the technical proposal for each portion of the proposed products or services to be provided by the subcontractor H. Any other data that may be required by the State	FairPoint has existing master contracts with Solacom and GeoComm and if awarded a contract as a result of this submission will add a scope of work for the Alabama project to those contracts. FairPoint has attached is teaming agreements for this bid to this Attachment B as Exhibit 3. A. Name: GeoComm, Inc. Address: 601 West St. Germain Street, St. Cloud, Minnesota 56301 Principal place of business: St. Cloud, Minnesota State of Incorporation: Minnesota Telephone: 320-240-0040 or 888-436-2666 Name: Solacom Technologies, Inc. Address: 84 Jean Proulx Street, Gatineau, Quebec J8Z 1W1 Canada Principal place of business: Canada State of Incorporation: Delaware Telephone: 888-765-2266 B. FairPoint and GeoComm will fulfill the following RFP requirements: 4.3 EMERGENCY CALL ROUTING FUNCTION (ECRF) 4.8 LOCATION VALIDATION FUNCTION (LVF) 4.8.1 LOCATION SERVICES FairPoint and Solacom will fulfill the following RFP requirements: 1.3 STANDARDS 1.3.1 OPEN STANDARDS 2 SECTION 2 ANGEN ESINET REQUIREMENTS 2.1 ANGEN ESINET DESIGN GOALS AND OBJECTIVES 2.2 ANGEN ESINET SERVICES 2.3 ANGEN ESINET ARCHITECTURE REQUIREMENTS

2.3.10 GENERAL INFORMATION

Business Information

	Enter your response below.
Legal Name of Company	**FairPoint Business Services, LLC**
Contact Name	**Joseph Weisenburger**
Contact Title	**Sr. Account Manager**
Contact E-mail Address	**jweisenburger@fairpoint.com**
Company Mailing Address	**770 Elm St. Floor 1**
Company City, State, Zip	**Manchester, NH 03101**
Company Telephone Number	**603.369.0240 cell**
Company Fax Number	**not available**
Company Website Address	**www.fairpoint.com**
Number of Employees (company)	**approximately 3,050 employees**
Years of Experience	**Over 16 years of experience in deploying statewide 9-1-1**
Number of U.S. Offices	**93 host central offices and 412 remote central offices**
Year Alabama Office Established (if applicable)	**To be determined**

Parent Company (if applicable)	**FairPoint Business Services LLC is a limited liability company that is member managed by its sole member FairPoint Communications, Inc.**
Revenues ($MM, prior year)	**2014 Revenues for FairPoint Communications Inc - $901M**
Revenues ($MM, two-years prior)	**2013 Revenues for FairPoint Communications Inc - $939M**
% Of Revenue from Alabama customers	**0**

	Yes / No	**If No, Explanation**
Does your company have a formal disaster recovery plan? If no, please provide an explanation of any alternative solution your company has to offer. If yes, please note and include as an attachment.	**No**	A comprehensive disaster recovery plan will be created specifically for the State of Alabama in consultation with the State department(s) to assure that a thorough understanding is incorporated that will account for any unique PSAP considerations. Furthermore, a tried and tested Disaster Recovery (DR) plan will be developed for the data centers and other critical infrastructure.

	Enter your response below. Please indicate if attachments are included.
What is your company's technology and process for securing any Board or private information that is maintained by your company?	Security design and best practices are in alignment with NENA recommendations in both 04-503 and 75-001. Furthermore from a corporate posture, FairPoint aligns with the NIST framework for security practices. All servers and the SBCs are

2.3.11 EXPERIENCE SERVING STATE GOVERNMENTS

	Enter your response below. Please indicate if attachments are included.
Please provide a brief description of your company's experience in serving state governments and/or quasi-governmental accounts. Disclose each state or jurisdiction in which Respondent does business or holds contracts to provide goods or services and the nature of each such business or contract.	• In Maine, New Hampshire and Vermont we manage large complex multi-million dollar contracts for the installation, maintenance and support of a wide range of communications and information technology solutions, covering thousands of State Government locations. Such services include but are not limited to NG911, Carrier Ethernet, fiber optics, traditional

2.3.12 EXPERIENCE SERVING SIMILAR CLIENTS

	Enter your response below. Please indicate if attachments are included.
Please describe your company's experience in serving clients of a similar size to the State that also had a similar scope. Please provide specific clients and detailed examples.	FairPoint brings the following • For the State of Maine, we replaced our statewide E9-1-1 system in 2014 with a statewide, complete turn-key Next

Attachment A – Sample Contract Terms and Conditions

CONTRACT FOR SERVICES

This Contract ("Contract"), entered into by and between the Alabama 911 Board (the "Board") and _________________ (the "Contractor"), is executed pursuant to the terms and conditions set forth herein. In consideration of those mutual undertakings and covenants, the parties agree as follows:

1. Duties of Contractor. The Contractor shall provide the following services relative to this Contract:

[Scope of services to be inserted here and as Appendices/Exhibits upon award of Contract]

2. Consideration. The Contractor shall be compensated for services performed under this Contract as follows:

[Fee information to be inserted upon award of Contract]

3. Term. This Contract shall be effective for a period of [___TBD Contractor proposes 5 years______]. It shall commence on [__TBD_____] and shall remain in effect through [__TBD______].[Contractor also proposes five 1-year renewal options]

4. Access to Records. The Contractor and its subcontractors, if any, shall maintain all books, documents, papers, accounting records, and other evidence pertaining to all costs incurred and payments made under this Contract. They shall make such materials available at their respective offices at all reasonable times during this Contract, and for three (3) years from the date of final payment under this Contract, for inspection by the Board or its authorized designees. Copies shall be furnished at no cost to the Board if requested.

5. Assignment; Successors. The Contractor shall not assign or subcontract the whole or any part of this Contract without the Board's prior written consent. The Contractor may assign its right to receive payments to such third parties as the Contractor may desire without the prior written consent of the Board, provided that the Contractor gives written notice (including evidence of such assignment) to the Board thirty (30) days in advance of any payment so assigned. The assignment shall cover all unpaid amounts under this Contract and shall not be made to more than one party.

Deleted: The Contractor binds its successors and assignees to all the terms and conditions of this Contract.

6. Assignment of Antitrust Claims. As part of the consideration for the award of this Contract, the Contractor assigns to the Board all right, title and interest in and to any claims the Contractor now has, or may acquire, under state or federal antitrust laws relating to the products or services which are the subject of this Contract.

7. Audits. The Contractor acknowledges that it may be required to submit to an audit of funds paid through this Contract. Any such audit shall be conducted in accordance with Chapter 2A, Title 40 Ala. Code, 1975, and audit guidelines specified by the Board.

The Board considers the Contractor to be a "vendor" for purposes of this Contract. However, if required by applicable provisions of the Office of Management and Budget Circular A-133 (Audits of States, Local Governments, and Non-Profit Organizations), following the expiration of this Contract the Contractor shall arrange for a financial and compliance audit of funds provided by the Board pursuant to this Contract. Such audit is to be conducted by an independent public or certified public accountant and performed in accordance with industry best practice and applicable provisions of the Office of Management and Budget Circulars A-133 (Audits of States, Local Governments, and Non-Profit Organizations). The Contractor is responsible for ensuring that the audit and any management letters are completed and forwarded to the Board in accordance with the terms of this Contract. Audits conducted pursuant to this paragraph must be submitted no later than nine (9) months following the close of the Contractor's fiscal year. The Contractor agrees to provide the Board an original of all financial and compliance audits. The audit shall be an audit of the actual entity, or distinct portion thereof that is the Contractor, and not of a parent, member, or Subsidiary Corporation of the Contractor, except to the extent such an expanded audit may be determined by the Board to be in the best interests of the Board. The audit shall include a statement from the Auditor that the Auditor has reviewed this Contract and that the Contractor is not out of compliance with the financial aspects of this Contract. To the extent not otherwise barred by applicable law, The Board shall be pay any Contractor costs associated with a Board requested audit.

8. Authority to Bind Contractor. The signatory for the Contractor represents that he/she has been duly authorized to execute this Contract on behalf of the Contractor and has obtained all necessary or applicable approvals to make this Contract fully binding upon the Contractor when his/her signature is affixed, and accepted by the Board.

9. Changes in Work. The Contractor shall not commence any additional work or change the scope of the work until authorized in writing by the Board. The Contractor shall make no claim for additional compensation in the absence of a prior written approval and amendment executed by all signatories hereto. This Contract may only be amended, supplemented or modified by a written document executed in the same manner as this Contract.

10. Compliance with Laws.

A. The Contractor shall comply with all applicable federal, state, and local laws, rules, regulations, and ordinances, and all provisions required thereby to be included herein are hereby incorporated by reference. The enactment or modification of any applicable state or federal statute or the promulgation of rules or regulations thereunder after execution of this Contract shall be reviewed by the Board and the Contractor to determine whether the provisions of this Contract require formal modification.

B. The Contractor and its agents shall abide by all ethical requirements that apply to persons who have a business relationship with the Board as set forth in The Alabama Ethics Law Sections 36-25-1 et seq. Ala. Code, 1975, as amended and the regulations promulgated thereunder. If the Contractor is not familiar with these ethical requirements, the Contractor should refer any questions to the Alabama State Ethics Commission. If the Contractor or its agents violate any applicable ethical standards, the Board may, in its sole discretion, terminate this Contract immediately upon notice to the Contractor. In addition, the Contractor may be subject to penalties under The Alabama Ethics Law at Section 36-25-27 Ala. Code, 1975, as amended and under any other applicable laws.

C. The Contractor certifies by entering into this Contract that neither it nor its principal(s) is presently in arrears in payment of taxes, permit fees or other statutory, regulatory or judicially required payments to the Board or the State of Alabama. The Contractor agrees that any payments currently due to the Board or the State of Alabama may be withheld from payments due to the Contractor. Additionally, further work or payments may be withheld, delayed, or denied and/or this Contract suspended until the Contractor is current in its payments and has submitted proof of such payment to the Board.

D. The Contractor warrants that it has no current, pending or outstanding criminal, civil, or enforcement actions initiated by the Board or the State of Alabama and agrees that it will immediately notify the Board of any such actions. During the term of such actions, the Contractor agrees that the Board may delay, withhold, or deny work under any supplement, amendment, change order or other contractual device issued pursuant to this Contract.

E. If a valid dispute exists as to the Contractor's liability or guilt in any action initiated by the Board or the State of Alabama or any affiliated agencies, and the Board decides to delay, withhold, or deny work to the Contractor, the Contractor may request that it be allowed to continue, or receive work, without delay. The Contractor must submit, in writing, a request for review to the Board. A determination by the Board shall be binding on the parties. Any payments that the Board may delay, withhold, deny, or apply under this section shall not be subject to penalty or interest.

F. The Contractor warrants that the Contractor and its subcontractors, if any, shall obtain and maintain all required permits, licenses, registrations, and approvals, and shall comply with all health, safety, and environmental statutes, rules, or regulations in the performance of work activities for the Board. Failure to do so may be deemed a material breach of this Contract and grounds for immediate termination and denial of further work with the Board.

G. The Contractor affirms that, Contractor is properly registered and owes no outstanding reports to the Alabama Secretary of State.

11. Condition of Payment. All services provided by the Contractor under this Contract must be performed to the Board's reasonable satisfaction and in accordance with all applicable federal, state, local laws, ordinances, rules and regulations. The Board shall not be required to pay for work found to be unsatisfactory, inconsistent with this Contract, or performed in violation of and federal, state or local statute, ordinance, rule or regulation.

12. Confidentiality of Board Information. The Contractor understands and agrees that data, materials, and information disclosed to the Contractor may contain confidential and protected information. The Contractor covenants that data, material, and information gathered, based upon or disclosed to the Contractor for the purpose of this Contract will not be disclosed to or discussed with third parties without the prior written consent of the Board.

The parties acknowledge that the services to be performed by Contractor for the Board under this Contract may require or allow access to data, materials, and information containing Personally Identifiable Information (defined as any information that identifies or can be used to identify, contact or locate the person to whom such information pertains or from which identification or contact information on an individual can be derived). If any Social Security number(s) is/are disclosed by Contractor, Contractor agrees to pay the cost of the notice of disclosure of a breach of the security of the system in addition to any other claims and expenses for which it is liable under the terms of this contract.

13. Continuity of Services.

A. The Contractor recognizes that the service(s) to be performed under this Contract are vital to the Board and the State of Alabama and must be continued without interruption and that, upon Contract expiration or termination, a successor, either the Board or another contractor, may continue them. The Contractor agrees to:

1. Exercise its best efforts and cooperation to effect an orderly and efficient transition to a successor.

Deleted: <#>Furnish phase-in training; and¶

B. The Contractor shall, upon the Board's written notice:

1. Continue to provide services during the transition of services period for up to six (6) months after this Contract is terminated or expires; and
2. Negotiate in good faith a plan with the Board and any successor to determine the nature and extent of phase-in, phase-out services necessary to transition operation. The plan shall specify a training program and a date for transferring responsibilities for each of the service areas provided, and shall be subject to the Board's approval. The Contractor shall provide sufficient experienced personnel during the phase-in, phase-out period to ensure that the services called for by this Contract are maintained at the required level of proficiency.

C.

D. The Contractor shall be reimbursed for reasonable phase-in, phase-out costs (i.e., costs incurred within the agreed period after contract expiration that result from phase-in, phase-out operations) including any interim contract extensions. Any costs eligible for reimbursement shall not exceed the monthly recurring cost being paid for the services provided under this contract at the time of contract expiration and as approved by the Board.

14. Debarment and Suspension.

A. The Contractor certifies by entering into this Contract that neither it nor its principals nor any of its subcontractors are presently debarred, suspended, proposed for debarment, declared ineligible or voluntarily excluded from entering into this Contract by any federal agency or by any department, agency or political subdivision of the State of Alabama. The term "principal" for purposes of this Contract means an officer, director, owner, partner, key employee or other person with primary management or supervisory responsibilities, or a person who has a critical influence on or substantive control over the operations of the Contractor.

B. The Contractor certifies that it has verified the state and federal suspension and debarment status for all subcontractors receiving funds under this Contract and shall be solely responsible for any recoupment, penalties or costs that might arise from use of a suspended or debarred subcontractor. The Contractor shall immediately notify the Board if any subcontractor becomes debarred or suspended, and shall, at the Board's request, take all steps required by the Board to terminate its contractual relationship with the subcontractor for work to be performed under this Contract.

15. Default by Board. If the Board, ninety (90) days after receipt of written notice or sixty (60) days in the case on any non-payment, fails to correct or cure any material breach of this Contract, the Contractor may cancel and terminate this Contract and institute measures to collect monies due up to and including the date of termination.

If Contractor fails to substantially perform its obligation to provide the Service in accordance with this Agreement and such failure is not cured within sixty (60) calendar days following receipt of a default notice in writing from the Board, then the Board has the right to terminate this Agreement. Contractor may also terminate this Agreement if the Board fails to pay any invoice (excluding any reasonably disputed claim amounts, but only while such dispute is pending) within sixty (60) calendar days after the invoice date, which failure has not been cured within ten (10) calendar days of receiving notice of the failure to pay. Upon termination of the Agreement, the Board is liable for any unpaid Charges, Taxes and Surcharges for the terminated Service incurred up to the time of termination of the Agreement and associated with termination of the Agreement. If such termination is due to the default of the Board, then the Board, unless

Deleted: The Contractor shall allow as many personnel as practicable to remain on the job to help the successor maintain the continuity and consistency of the services required by this Contract. The Contractor shall also disclose necessary personnel records and allow the successor to conduct on-site interviews with these employees. If selected employees are agreeable to the change, the Contractor shall release them at a mutually agreeable date and negotiate transfer of their earned fringe benefits to the successor.

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otherwise barred by law, is required to pay a cancellation charge which shall equitably compensate Contractor for any costs and expenses incurred up until such date of termination. Termination of the Service for any cause does not release either party from any liability which at the time of termination had already accrued or which thereafter accrues for any act or omission occurring prior to the termination or from an obligation which is expressly stated in the Agreement to survive termination.

16. Disputes.

A. Should any disputes arise with respect to this Contract, the Contractor and the Board agree to act immediately to resolve such disputes. Time is of the essence in the resolution of disputes.

B. The Contractor agrees that, the existence of a dispute notwithstanding, it will continue without delay to carry out all of its responsibilities under this Contract that are not affected by the dispute. Should the Contractor fail to continue to perform its responsibilities regarding all non-disputed work, without delay, any additional costs incurred by the Board or the Contractor as a result of such failure to proceed shall be borne by the Contractor, and the Contractor shall make no claim against the Board for such costs.

C. If a party to the Contract is not satisfied with the progress toward resolving a dispute, the party must notify in writing the other party of this dissatisfaction. Upon written notice, the parties have ten (10) working days, unless the parties mutually agree to extend this period, following the notification to resolve the dispute. If the dispute is not resolved within ten (10) working days, the parties shall submit the dispute, in compliance with the recommendations to the Attorney General, when considering settlement of such disputes, to utilize appropriate forms of alternate dispute resolution, including, but not limited to, mediation by or through the Attorney General's Office of Administrative Hearing or where appropriate, private mediators. If a party if not satisfied with the results of mediation, the dissatisfied party may submit the dispute to the Circuit Court of Montgomery County, Alabama.

D. The Board may withhold payments only on disputed items pending resolution of the dispute. The unintentional nonpayment by the Board to the Contractor of one or more invoices not in dispute in accordance with the terms of this Contract will not be cause for the Contractor to terminate this Contract so long as such error by the Board is corrected within ten (10) days of written notice by Contractor to the Board.

E. It is agreed that the terms and commitments contained herein shall not be constituted a debt of the State of Alabama in violation of Article XI, Section 213, of the Constitution of Alabama, 1901, as amended by Amendment No. 26. It is further agreed that if any provision of this contract shall contravene any statute or constitutional provision or amendment, either now in effect or which may, during the course of this contract, be enacted, then that conflicting provision of the contract shall be null and void.

17. Drug-Free Workplace Certification. The Contractor hereby covenants and agrees to make a good faith effort to provide and maintain a drug-free workplace. The Contractor will give written notice to the Board within ten (10) days after receiving actual notice that the Contractor, or an employee of the Contractor in the State of Alabama, has been convicted of a criminal drug violation occurring in the workplace. False certification or violation of this certification may result in sanctions including, but not limited to, suspension of contract payments, termination of this Contract and/or debarment of contracting opportunities with the Board for up to three (3) years.

In addition to the provisions of the above paragraph, if the total amount set forth in this Contract is in excess of $25,000.00, the Contractor certifies and agrees that it will provide a drug-free workplace by:

A. Publishing and providing to all of its employees a statement notifying them that the unlawful manufacture, distribution, dispensing, possession or use of a controlled substance is prohibited in the Contractor's workplace, and specifying the actions that will be taken against employees for violations of such prohibition;

B. Establishing a drug-free awareness program to inform its employees of (1) the dangers of drug abuse in the workplace; (2) the Contractor's policy of maintaining a drug-free workplace; (3) any available drug counseling, rehabilitation and employee assistance programs; and (4) the penalties that may be imposed upon an employee for drug abuse violations occurring in the workplace;

C. Notifying all employees in the statement required by subparagraph (A) above that as a condition of continued employment, the employee will (1) abide by the terms of the statement; and (2) notify the Contractor of any criminal drug statute conviction for a violation occurring in the workplace no later than five (5) days after such conviction;

D. Notifying the Board in writing within ten (10) days after receiving notice from an employee under subdivision (C)(2) above, or otherwise receiving actual notice of such conviction;

E. Within thirty (30) days after receiving notice under subdivision (C)(2) above of a conviction, imposing the following sanctions or remedial measures on any employee who is convicted of drug abuse violations occurring in the workplace: (1) taking appropriate personnel action against the employee, up to and including termination; or (2) requiring such employee to satisfactorily participate in a drug abuse assistance or rehabilitation program approved for such purposes by a federal, state or local health, law enforcement, or other appropriate agency; and

F. Making a good faith effort to maintain a drug-free workplace through the implementation of subparagraphs (A) through (E) above.

18. Employment Eligibility Verification. As required by Alabama state law, the Contractor swears or affirms under the penalties of perjury that the Contractor does not knowingly employ an unauthorized alien. The Contractor further agrees that:

A. The Contractor shall enroll in and verify the work eligibility status of all his/her/its newly hired employees through the E-Verify program as defined in IC §22-5-1.7-3. The Contractor is not required to participate should the E-Verify program cease to exist. Additionally, the Contractor is not required to participate if the Contractor is self-employed and does not employ any employees.

B. The Contractor shall not knowingly employ or contract with an unauthorized alien. The Contractor shall not retain an employee or contract with a person that the Contractor subsequently learns is an unauthorized alien.

C. The Contractor shall require his/her/its subcontractors, who perform work under this Contract, to certify to the Contractor that the subcontractor does not knowingly employ or contract with an unauthorized alien and that the subcontractor has enrolled and is participating in the E-Verify program. The Contractor agrees to maintain this certification throughout the duration of the term of a contract with a subcontractor.

The Board may terminate for default if the Contractor fails to cure a breach of this provision no later than thirty (30) days after being notified by the Board.

19. employee N/A..

20. Force Majeure. In the event that either party is unable to perform any of its obligations under this Contract or to enjoy any of its benefits because of natural disaster or decrees of governmental bodies not the fault of the affected party or for any other reason beyond the control of the affected party (hereinafter referred to as a "Force Majeure Event"), the party who has been so affected shall immediately give notice to the other party and shall do everything possible to resume performance. Upon receipt of such notice, all obligations under this Contract shall be immediately suspended. If the period of nonperformance exceeds thirty (30) days from the receipt of notice of the Force Majeure Event, the party whose ability to perform has not been so affected may, by giving written notice, terminate this Contract.

21. Funding Cancellation. When the Board makes a written determination that funds are not authorized by statute or otherwise available to support continuation of performance of this Contract, this Contract shall be canceled. A determination by the Board that funds are not authorized or otherwise available to support continuation of performance shall be final and conclusive.

22. Governing Law. This Contract shall be governed, construed, and enforced in accordance with the laws of the State of Alabama, without regard to its conflict of laws rules. Suit, if any, must be brought in the Circuit Court of Montgomery County, Alabama.

23. Indemnification. The Contractor agrees to indemnify, defend, and hold harmless the Board, its agents, officials, and employees from all claims and suits including court costs, attorney's fees, and other expenses caused by any act or omission of the Contractor and/or its subcontractors, if any, in the performance of this Contract. The Board shall not provide such indemnification to the Contractor.

24. Disclaimer of Warranties and Limitation of Liability. EXCEPT AS EXPRESSLY SET FORTH IN THIS AGREEMENT, CONTRACTOR AND ITS NETWORK SERVICES SUPPLIER(S), AND THIRD-PARTY SOFTWARE, HARDWARE AND EQUIPMENT PROVIDERS DISCLAIM ANY AND ALL REPRESENTATIONS AND WARRANTIES, EXPRESS, IMPLIED OR ARISING BY COURSE OF PERFORMANCE, DEALING, CUSTOM OR TRADE USAGE, INCLUDING BUT NOT LIMITED TO THE IMPLIED WARRANTIES OF MERCHANTABILITY, FITNESS FOR A PARTICULAR PURPOSE (EVEN IF WE KNEW OR SHOULD HAVE KNOWN SUCH PURPOSE), AND NON-INFRINGEMENT FOR THE SERVICE AND CONTRACTOR FACILITIES. CONTRACTOR, ITS NETWORK SERVICES SUPPLIER(S), AND THIRD-PARTY SOFTWARE, HARDWARE AND EQUIPMENT PROVIDERS WILL NOT BE LIABLE FOR UNAUTHORIZED ACCESS TO THE CONTRACTOR FACILITIES OR FOR UNAUTHORIZED ACCESS TO OR ALTERATION, THEFT OR DESTRUCTION OF YOUR DATA FILES, PROGRAMS, THE BOARD EQUIPMENT, PROCEDURES OR INFORMATION THROUGH ACCIDENT, NEGLIGENCE, FRAUDULENT MEANS OR DEVICES, OR ANY OTHER METHOD, REGARDLESS OF THE CAUSE OF SUCH DAMAGE. SOME JURISDICTIONS DO NOT PERMIT THE EXCLUSION OF CERTAIN WARRANTIES. IN THESE JURISDICTIONS CONTRACTOR'S LIABILITY SHALL BE LIMITED TO THE MAXIMUM EXTENT PERMITTED BY APPLICABLE LAWS.

Deleted: **Employment Option**. If the Board determines that it would be in the Board's best interest to hire an employee of the Contractor, the Contractor will release the selected employee from any non-competition agreements that may be in effect. This release will be at no cost to the Board or the employee

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NEITHER PARTY IS LIABLE TO THE OTHER FOR ANY INDIRECT, CONSEQUENTIAL, EXEMPLARY, SPECIAL, INCIDENTIAL OR PUNITIVE DAMAGES, INCLUDING WITHOUT LIMITATION LOSS OF USE OR LOST BUSINESS, REVENUE, PROFITS, OR GOODWILL OR LOSS OR DAMAGE TO DATA, ARISING IN CONNECTION WITH THIS AGREEMENT, OUT OF THE USE OR INABILITY TO USE THE SERVICE OR ANY CONTRACTOR FACILITIES, UNDER ANY THEORY OF TORT, CONTRACT, INDEMNITY, WARRANTY, STRICT LIABILITY OR NEGLIGENCE, EVEN IF THE PARTY KNEW OR SHOULD HAVE KNOWN OF THE POSSIBILITY OF SUCH DAMAGES OR WAS ADVISED OF THE POSSIBILITY OF SUCH DAMAGES.

IF THE SERVICE DOES NOT FUNCTION SUBSTANTIALLY IN ACCORDANCE WITH SUCH SERVICE DESCRIPTIONS, THROUGH NO FAULT OF THE BOARD OR ITS AGENTS, CONTRACTORS, OR USERS AND NOT DUE TO SCHEDULED MAINTENANCE, CONTRACTORS SOLE OBLIGATION IS TO REPAIR AND RESTORE THE SERVICES AT CONTRACTOR'S EXPENSE THE FOREGOING WARRANTY AND REMEDY IS CONTRACTOR'S EXCLUSIVE WARRANTY AND THE BOARD'S EXCLUSIVE REMEDY FOR BREACH OF WARRANTY, UNLESS OTHERWISE EXPRESSLY STATED HEREIN.

25. Independent Contractor; Workers' Compensation Insurance. The Contractor is performing as an independent entity under this Contract. No part of this Contract shall be construed to represent the creation of an employment, agency, partnership or joint venture agreement between the parties. Neither party will assume liability for any injury (including death) to any persons, or damage to any property, arising out of the acts or omissions of the agents, employees or subcontractors of the other party. The Contractor shall provide all necessary unemployment and workers' compensation insurance for the Contractor's employees, and shall provide the Board with a Certificate of Insurance evidencing such coverage prior to starting work under this Contract.

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26. Insurance. The Contractor shall secure and keep in force during the term of this Contract the following insurance coverage, covering the Contractor for any and all claims of any nature which may in any manner arise out of or result from Contractor's performance under this Contract:

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A. The Contractor and their subcontractors (if any) shall secure and keep in force during the term of this Contract the following insurance coverages (if applicable) covering the Contractor for any and all claims of any nature which may in any manner arise out of or result from Contractor's performance under this Contract:

1. Commercial general liability, including contractual coverage, and products or completed operations coverage (if applicable), with minimum liability limits not less than $700,000 per person and $5,000,000 per occurrence unless additional coverage is required. The Board is to be named as an additional insured on a primary, non-contributory basis for any liability arising directly or indirectly under or in connection with this Contract.

2. Automobile liability for owned, non-owned and hired autos with minimum liability limits of $700,000 per person and $5,000,000 per occurrence. The Board is to be named as an additional insured on a primary, non-contributory basis.

3. Professional Liability, also known as Errors and Omissions Insurance, for those Contractors required to hold a professional license in Alabama with limits not less than $700,000 per cause of action and $5,000,000 per occurrence. This is coverage available to pay for liability arising out of the performance of professional or business related duties, with coverage tailored to the needs of the specific profession. Coverage for the benefit of the Board shall continue for a period of two (2) years after the date of service provided under this Contract.

4. Fiduciary Liability would be required if the Contractor is responsible for the management and oversight of various employee benefit plans and programs such as pensions, profit-sharing and savings, among others. These contractors face potential claims for mismanagement brought by plan members. Limits should be no less than $700,000 per cause of action and $5,000,000 per occurrence.

5. Valuable Papers coverage, available under an Inland Marine policy, is recommended when any plans, drawings, media, data, records, reports, billings and other documents are produced or used under this agreement. Insurance must have limits sufficient to pay for the re-creation and reconstruction of such records.

6. The Contractor shall secure the appropriate Surety or Fidelity Bond(s) as required by applicable statutes.

7. The Contractor shall provide proof of such insurance coverage by tendering to the Board a certificate of insurance prior to the commencement of this Contract and proof of workers' compensation coverage meeting all statutory requirements. In addition, proof of an "all states endorsement" covering claims occurring outside Alabama is required if any of the services provided under this Contract involve work outside of Alabama.

B. The Contractor's insurance coverage must meet the following additional requirements:

1. The insurer must have a certificate of authority or other appropriate authorization to operate in the state in which the policy was issued.

2. Any deductible or self-insured retention amount or other similar obligation under the insurance policies shall be the sole obligation of the Contractor.

3. The Board will be defended, indemnified and held harmless to the full extent of any coverage actually secured by the Contractor in excess of the minimum requirements set forth above. The duty to indemnify the Board under this Contract shall not be limited by the insurance required in this Contract.

4. The insurance required in this Contract, through a policy or endorsement(s), shall include a provision that the policy and endorsements may not be canceled or modified without thirty (30) days' prior written notice to the Board.

5. The Contractor waives and agrees to require their insurer to waive their rights of subrogation against the Board.

C. Failure to provide insurance as required in this Contract may be deemed a material breach of contract entitling the Board to immediately terminate this Contract. The Contractor shall furnish a certificate of insurance and all endorsements to the Board before the commencement of this Contract.

27. Intellectual Property.

Except as expressly stated in this Agreement, this Agreement may not be construed (nor may any be implied or arise by estoppel) as granting a license with respect to any patent, copyright, trade name, trademark, service mark, trade secret or any other intellectual property ("Intellectual Property Rights"), now or hereafter owned, controlled or licensable by either party, including in the case of the Board no license (other than the limited license to use the Service) is granted by Contractor with respect to the Service or any Contractor Facilities. Except as expressly stated in this Agreement or in accordance with the terms of a separate license agreement between the parties granting such rights, neither party may use any Intellectual Property Rights of the other party.

The Board agrees that the Service provided by Contractor hereunder are subject to the terms, conditions and restrictions contained in any applicable agreements (including software or other license agreements, acceptable use policies, etc.) between Contractor and Contractor 's network service providers and suppliers. Contractor agrees to use commercially reasonable efforts to advise The Board, directly or through a third party, of any such terms, conditions or restrictions that may limit any The Board use of the Service.

28. INVOICING Contractor will invoice The Board monthly for Charges, Taxes and Surcharges. Payments received after the due date may be subject to a late payment charge of 1.5% per month or the maximum rate permitted by applicable Laws, whichever is lower, on all overdue amounts until The Board's account is current. In the event The Board timely disputes an invoiced amount, The Board shall pay the undisputed portion of the invoice.

29. Key Person(s).

A. If both parties have designated that certain individual(s) are essential to the services offered, the parties agree that should such individual(s) leave their employment during the term of this Contract for whatever reason, the Board shall have the right to terminate this Contract upon thirty (30) days' prior written notice.

B. In the event that the Contractor is an individual, that individual shall be considered a key person and, as such, essential to this Contract. Substitution of another for the Contractor shall not be permitted without express written consent of the Board.

Nothing in sections A and B, above shall be construed to prevent the Contractor from using the services of others to perform tasks ancillary to those tasks which directly require the expertise of the key person. Examples of such ancillary tasks include secretarial, clerical, and common labor duties. The Contractor shall, at all times, remain responsible for the performance of all necessary tasks, whether performed by a key person or others.

Key person(s) to this Contract is/are ____

30. Minority, Women, and Veteran Business Enterprise Participation. Substantially all of the work under this Contract will be performed directly by the Contractor's employees or subcontractor's identified in its bid response or by its certified technicians. Prior to the time the Contractor employs any additional

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third party subcontractors, the Contractor will work with the Board to identify opportunities and select qualified participants.

31. **Licensing Standards**. The Contractor, its employees and subcontractors shall comply with all applicable licensing standards, certification standards, accrediting standards and any other laws, rules, or regulations governing services to be provided by the Contractor pursuant to this Contract. The Board will not pay the Contractor for any services performed when the Contractor, its employees or subcontractors are not in compliance with such applicable standards, laws, rules, or regulations. If any license, certification or accreditation expires or is revoked, or any disciplinary action is taken against an applicable license, certification, or accreditation, the Contractor shall notify the Board immediately and the Board, at its option, may immediately terminate this Contract.

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32. **Merger & Modification**. This Contract constitutes the entire agreement between the parties. No understandings, agreements, or representations, oral or written, not specified within this Contract will be valid provisions of this Contract. This Contract may not be modified, supplemented, or amended, except by written agreement signed by all necessary parties.

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33. **Nondiscrimination**.

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Pursuant to the federal Civil Rights Act of 1964, the Age Discrimination in Employment Act, and the Americans with Disabilities Act, the Contractor covenants that it shall not discriminate against any employee or applicant for employment relating to this Contract with respect to the hire, tenure, terms, conditions or privileges of employment or any matter directly or indirectly related to employment, because of the employee's or applicant's race, color, national origin, religion, sex, age, disability, ancestry, status as a veteran, or any other characteristic protected by federal, state, or local law ("Protected Characteristics"). Contractor certifies compliance with applicable federal laws, regulations, and executive orders prohibiting discrimination based on the Protected Characteristics in the provision of services. Breach of this paragraph may be regarded as a material breach of this Contract, but nothing in this paragraph shall be construed to imply or establish an employment relationship between the Board and any applicant or employee of the Contractor or any subcontractor.

The Board is periodically a recipient of federal funds, and therefore, where applicable, Contractor and any subcontractors shall comply with requisite affirmative action requirements, including reporting, pursuant to 41 CFR Chapter 60, as amended, and Section 202 of Executive Order 11246.

34. **Notice to Parties**. Whenever any notice, statement or other communication is required under this Contract, it shall be sent by first class mail or via an established courier or delivery service to the following addresses, unless otherwise specifically advised.

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A. Notices to the Board shall be sent to:

Alabama 911 Board
Attn: ____________________________________
[ADDRESS]

B. Notices to the Contractor shall be sent to: **(Include contact name and/or title, name of vendor & address)**

____
____
____

____

Payments to the Contractor shall be made via electronic funds transfer in accordance with instructions filed by the Contractor with the Board.

35. Order of Precedence; Incorporation by Reference. Any inconsistency or ambiguity in this Contract shall be resolved by giving precedence in the following order: (1) this Contract, (2) attachments prepared by the Board, (3) RFP#_____, (4) Contractor's response to RFP#_____, and (5) attachments prepared by the Contractor. All attachments, and all documents referred to in this paragraph, are hereby incorporated fully by reference.

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36. Ownership of Documents and Materials. All documents, records, programs, data, film, tape, articles, memoranda, and other materials not developed or licensed by the Contractor prior to execution of this Contract, but specifically developed under this Contract shall be considered "work for hire" and the Contractor transfers any ownership claim to the Board and all such materials will be the property of the Board. Use of these materials, other than related to contract performance by the Contractor, without the prior written consent of the Board, is prohibited. During the performance of this Contract, the Contractor shall be responsible for any loss of or damage to these materials developed for or supplied by the Board and used to develop or assist in the services provided while the materials are in the possession of the Contractor. Any loss or damage thereto shall be restored at the Contractor's expense. The Contractor shall provide the Board full, immediate, and unrestricted access to the work product during the term of this Contract.

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37. Payments. All payments shall be made 60 days in arrears by electronic funds transfer to the financial institution designated by the Contractor in writing. No payments will be made in advance of receipt of the goods or services that are the subject of this Contract.

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38. Penalties/Interest/Attorney's Fees. The Board will in good faith perform its required obligations hereunder and does not agree to pay any penalties, liquidated damages, interest or attorney's fees, except as permitted by Alabama law.

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Any liability resulting from the Board's failure to make prompt payment shall be based solely on the amount of funding originating from the Board and shall not be based on funding from federal or other sources.

39. Progress Reports. The Contractor shall submit progress reports to the Board upon request. The progress reports shall serve the purpose of assuring the Board that work is progressing in line with the schedule, and that completion can be reasonably assured on the scheduled date.

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40. Public Record. The Contractor acknowledges that the Board will not treat this Contract as containing confidential information unless attachments are otherwise marked or redacted in compliance with Alabama law. Use by the public of the information contained in this Contract shall not be considered an act of the Board.

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41. Renewal Option. This Contract may be renewed under the same terms and conditions, subject to the approval of the Board. The term of the renewed contract may not be longer than the term of the original contract.

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42. Severability. The invalidity of any section, subsection, clause or provision of this Contract shall not affect the validity of the remaining sections, subsections, clauses or provisions of this Contract.

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43. Substantial Performance. This Contract shall be deemed to be substantially performed only when fully performed according to its terms and conditions and any written amendments or supplements.

44. Taxes. The Board is exempt from most state and local taxes and many federal taxes. The Board will not be responsible for any taxes levied on the Contractor as a result of this Contract.

Contractor's Charges are exclusive of the following charges: (a) all applicable federal, state, local, and foreign sales, use, excise, utility, gross receipts, value added or other taxes ("Taxes"); and (b) all applicable surcharges, including, but not limited to, charges to recover amounts Contractor is required or permitted by a governmental or quasi-governmental authority to collect from others or pay to others in support of statutory or regulatory funds or programs ("Surcharges"). Examples of Surcharges include, but, are not limited to, Universal Service funding, license tax, permit fees, or franchise fees.

Contractor may elect to impose and collect such Taxes and/or Surcharges, unless otherwise constrained by court order or applicable Laws. The Board agrees to pay all Taxes and Surcharges imposed unless otherwise exempt. If the Board provides Contractor with a duly authorized exemption certificate, Contractor will exempt the Board in accordance with applicable Laws, effective on the date Contractor receives the certificate.

45. Termination for Convenience. This Contract may be terminated, in whole or in part, by the Board whenever, for any reason, the Board determines that such termination is in its best interest. Termination of services shall be effected by delivery to the Contractor of a Termination Notice at least thirty (30) days prior to the termination effective date, specifying the extent to which performance of services under such termination becomes effective. The Contractor shall be compensated for services properly rendered prior to the effective date of termination. The Board will not be liable for services performed after the effective date of termination. The Contractor shall be compensated for services herein provided but in no case shall total payment made to the Contractor exceed the original contract price or shall any price increase be allowed on individual line items if canceled only in part prior to the original termination date.

Unless otherwise barred by law, the Board shall pay a termination charge which shall equitably compensate Contractor for any costs and expenses incurred up until such date of termination for convenience.

Termination of the Service for any cause does not release either party from any liability which at the time of termination had already accrued or which thereafter accrues for any act or omission occurring prior to the termination or from an obligation which is expressly stated in the Agreement to survive termination.

46. Termination for Default.

A. With the provision of sixty (60) days' notice to the Contractor, the Board may terminate this Contract in whole or in part if the Contractor fails to:

1. Correct or cure any breach of this Contract; the time to correct or cure the breach may be extended beyond sixty (60) days if the Board determines progress is being made and the extension is agreed to by the parties;
2. Deliver the supplies or perform the services within the time specified in this Contract or any extension;

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3. Make progress so as to endanger performance of this Contract; or
4. Perform any of the other provisions of this Contract.

B. If the Board terminates this Contract in whole or in part, it may acquire, under the terms and in the manner the Board considers appropriate, supplies or services similar to those terminated, and the Contractor will be liable to the Board for any excess costs for those supplies or services. However, the Contractor shall continue the work not terminated.

C. The Board shall pay the contract price for completed supplies delivered and services accepted. The Contractor and the Board shall agree on the amount of payment for manufacturing materials delivered and accepted and for the protection and preservation of the property. Failure to agree will be a dispute under the Disputes clause. The Board may withhold from these amounts any sum the Board determines to be necessary to protect the Board against loss because of outstanding liens or claims of former lien holders.

D. The rights and remedies of the Parties in this clause are in addition to any other rights and remedies provided by law or equity or under this Contract.

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47. Travel. No expenses for travel will be reimbursed unless specifically permitted under the scope of services or consideration provisions. If approved by the Board, expenditures made by the Contractor for travel will be reimbursed at the current rate paid by the Board and in accordance with the State Travel Policies and Procedures as specified in the current Financial Management Circular. Out-of-state travel requests must be reviewed by the Board for availability of funds and for appropriateness per Circular guidelines.

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48. Waiver of Rights. No right conferred on either party under this Contract shall be deemed waived, and no breach of this Contract excused, unless such waiver is in writing and signed by the party claimed to have waived such right. Neither the Board's review, approval or acceptance of, nor payment for, the services required under this Contract shall be construed to operate as a waiver of any rights under this Contract or of any cause of action arising out of the performance of this Contract, and the Contractor shall be and remain liable to the Board in accordance with applicable law for all damages to the Board caused by the Contractor's negligent performance of any of the services furnished under this Contract.

Deleted: 5

49. Work Standards. The Contractor shall execute its responsibilities by following and applying at all times the highest professional and technical guidelines and standards. If the Board becomes dissatisfied with the work product of or the working relationship with those individuals assigned to work on this Contract, the Board may request in writing the replacement of any or all such individuals, and the Contractor shall grant such request.

Deleted: 6

50. Non-Collusion and Acceptance

The undersigned attests, subject to the penalties for perjury, that the undersigned is the Contractor, or that the undersigned is the properly authorized representative, agent, member or officer of the Contractor. Further, to the undersigned's knowledge, neither the undersigned nor any other member, employee, representative, agent or officer of the Contractor, directly or indirectly, has entered into or been offered any sum of money or other consideration for the execution of this Contract other than that which appears upon the face hereof.

In Witness Whereof, Contractor and the Board have, through their duly authorized representatives, entered into this Contract. The parties, having read and understood the foregoing terms of this Contract, do by their respective signatures dated below agree to the terms thereof.

[Contractor]	Alabama Statewide 911 Board
By: ___________________________________	By: _________________________________
Printed Name: __________________________	Printed Name: ________________________
Title: _________________________________	Title: ________________________________
Date: _________________________________	Date: ________________________________

TEAMING AGREEMENT

This Teaming Agreement (this "Agreement") is effective as of March 1, 2016 (the "Effective Date") by and between FairPoint Business Services LLC ("FairPoint"), a Delaware limited liability company, with a mailing address c/o FairPoint Communications, Inc., 521 E. Morehead Street, Suite 500, Charlotte, NC 28202 and SolaCom Technologies, Inc., a Canadian corporation having its head office at 84 Jean-Proulx Street, in the City of Gatineau, Province of Québec, J8Z 1W1 ("Vendor"). Each of FairPoint and Vendor may be referred to herein as a "Party", and collectively as the "Parties".

RECITALS

WHEREAS, FairPoint is a telecommunications service provider authorized to do business in the State of Alabama (the "FairPoint Services");

WHEREAS, Vendor is in the business of providing next generation 9-1-1 call delivery solutions and professional services (the "Vendor Technology and Services");

WHEREAS, on January 21, 2016, the Alabama 9-1-1 Board (referred to herein as the "State") issued a Request for Proposal ("RFP") for an integrated network services for the operation of the State's ANGEN Network, a copy of which is incorporated by reference into and made a part of this Agreement;

WHEREAS, the Parties desire to work together in preparing a proposal (the "Proposal") in response to the RFP, in which FairPoint, as the prime contractor, will offer to provide an Internet Protocol-based, next generation 9-1-1 ESInet system and related services as specified in the RFP (together, the "NG 9-1-1 System"), using, in material part, the Vendor Technology and Services; and

WHEREAS, the RFP requires that FairPoint, when submitting the Proposal, agrees to be contractually bound by certain terms, conditions, certifications and representations and, therefore, the Parties desire to set forth their contractual obligations relative to the commitments which will be set forth in the final Proposal, a copy of which is incorporated by reference into and shall be made a part of this Agreement.

NOW, THEREFORE, FairPoint and Vendor agree as follows:

AGREEMENT

1. **COLLABORATION.** The Parties agree to diligently cooperate and collaborate in good faith with each other and their respective designated representatives and agents during the Term (as defined herein) for the purpose of preparing the Proposal to provide the NG 9-1-1 System in accordance with the RFP. FairPoint shall prepare the Proposal and Vendor shall provide such input, review and information to be incorporated into the Proposal as FairPoint may request. If the Proposal is selected as the winner by the State (an "Award"), the Parties agree to collaborate and consult in good faith in connection with FairPoint's negotiation of a definitive technology services contract with the State for the provision of the NG 9-1-1 System (the "State Agreement"). In such an event and concurrent with FairPoint's negotiation of the State Agreement, the Parties further agree that they shall negotiate a definitive master purchase and professional services agreement concerning their respective obligations in providing the NG 9-1-1 System (the "Follow-On Agreement") whereby

FairPoint shall act as a distributor and reseller of the Vendor Technology and Services to the State.

2. **PROPOSAL AND FOLLOW-ON AGREEMENT**. The obligations of the Parties set forth in this Section 2 are expressly subject to, as a condition subsequent, an Award. The terms and conditions detailing and describing the Parties' apportioned contributions, compensation, obligations, duties, responsibilities and liabilities for providing the NG 9-1-1 System to the State will be set forth in the Follow-On Agreement, which will specifically include the following:

   (i) Vendor agrees that it will be contractually obligated to provide to FairPoint, at a minimum, the products and services for which it has responded affirmatively that it will provide in Schedule 1 attached hereto as of the Effective Date of this Agreement, as such products and services shall be determined to be included in the final Proposal.

   (ii) Vendor agrees that it will prepare and provide FairPoint with responses, or contribute to FairPoint's responses, to certain sections of the RFP as set forth on Schedule 2 attached hereto and such other sections of the RFP as reasonably requested by FairPoint.

   (iii) Mutually agreeable service level agreements ("SLAs") and penalties consistent with those agreed to with the State as required by the RFP. Because a failure to achieve a given SLA could be triggered by one or more of the Parties providing products or services as part of the NG 9-1-1 System, the Parties agree that it will be beneficial to the overall administration of the NG 9-1-1 project to agree upon a methodology by which applicable penalties will be assessed on the Parties and the accountability for how a given penalty is determined. The Parties intend to more specifically define such penalties and methodologies in the Follow-On Agreement.

   (iv) Following an Award, if the State requests a modification to the terms of the Proposal in connection with the negotiation of the State Agreement, the Parties shall promptly consult and negotiate in good faith a modification to the Follow-On Agreement to reflect the Parties mutually agreed upon and apportioned contributions, compensation, obligations, duties, responsibilities and liabilities in connection therewith in the timeframe required by the State.

3. **COVENANTS; REPRESENTATIONS AND WARRANTIES**. Vendor acknowledges that, FairPoint, in submitting the Proposal to the State, is required to contractually agree to provide (A) "Technical Specifications," the required contents of which shall include, among other things, a detailed technical proposal describing how FairPoint proposes to provide the NG 9-1-1 System, and (B) a "Cost Proposal," the required contents of which shall include, among other things, a proposal for the total cost of the NG 9-1-1 System. The Technical Specifications and the Cost Proposal shall be collectively referred to herein as the "Submissions". Vendor further acknowledges that the State's award decision will be based upon the Proposal's technical merit and compliance with the Technical Specifications set forth in the RFP. Finally, in the event of an Award, the Vendor acknowledges and agrees that both Parties will have certain obligations and responsibilities under the State Agreement, including any riders, exhibits or other attachments thereto pursuant to the response set forth in the Proposal.

Accordingly, as it relates to the products and services to be provided by Vendor to FairPoint under the Proposal, Vendor (i) agrees, as a subcontractor to FairPoint, that Vendor will be contractually bound by, and the Follow-On Agreement will include as pass through obligations of Vendor in favor of FairPoint all responsibilities, representations, warranties, liabilities, covenants, service level commitments and other obligations that are passed through or that flow down to Vendor pursuant to the response set forth in the Proposal; and (ii) Vendor represents, warrants and covenants to FairPoint that the Submissions, including any responses given or made by Vendor included therein, are complete and accurate and shall be valid and binding commitments of Vendor until such time as the Proposal is rejected by the State or an Award is made. For the avoidance of doubt, Vendor acknowledges that the Vendor Technology and Services shall comply with any applicable or required data privacy laws, rules or regulations, breach notification requirements, compliance standards, audit controls and policy and procedures required by the State in the RFP and the Response.

4. **TERM AND TERMINATION.**

4.1 Term. The term of this Agreement ("Term") will begin on the Effective Date and will continue for a period of one (1) year thereafter subject to early termination as provided in Section 4.2.

4.2 Termination. This Agreement will terminate upon any of the following events:

(i) the State awards the contract for the NG 9-1-1 System to a party other than FairPoint;

(ii) if either Party defaults in the performance of any material provision of this Agreement, and such default is not cured within thirty (30) calendar days after written notice specifying, in reasonable detail, the nature of the default, or if either Party breaches any term or condition of the NDA (as defined below), then the non-defaulting Party may by further written notice terminate for cause this Agreement or may seek any other remedies available at law or in equity, including, without limitation, specific performance;

(iii) if either Party becomes insolvent, is unable to pay its debts when due, files for bankruptcy, is the subject of involuntary bankruptcy, has a receiver appointed, or has its assets assigned, the other Party may terminate this Agreement with thirty (30) days written notice;

(iv) the State rejects the Proposal, cancels the RFP or materially modifies the RFP or the Proposal in a manner reasonably unacceptable to either Party;

(v) the State requires FairPoint to use another service provider other than Vendor;

(vi) FairPoint notifies Vendor that FairPoint is ceasing its efforts with respect to the RFP or the Parties are unable to reach agreement on the terms of a Follow-On Agreement;

(vii) mutual written agreement of the Parties; or

(viii) execution of the Follow-On Agreement by FairPoint and Vendor.

5. **CONFIDENTIALITY.** The Parties or their affiliates have executed a Mutual Confidentiality and Nondisclosure Agreement dated February 8, 2016 (the "NDA") which is attached hereto

as Exhibit A and the terms and conditions of which will govern and apply to the disclosure and use of confidential information exchanged under this Agreement and the Follow-On Agreement.

6. **POINTS OF CONTACT.** The Parties hereby designate the persons listed below as primary points of contact for purposes of this Agreement. A Party may replace its point of contact by providing written notice of such replacement to the other Party.

For Vendor:	SolaCom Technologies, Inc. Attn: Pierre Plangger, President and CEO 84 Jean-Proulx Street, Gatineau, Québec, J8Z 1W1
For FairPoint:	FairPoint Communications Attn: Karen Romano 1 Davis Farm Road Portland, Maine 04103

7. **INDEMNIFICATION.** Each Party shall indemnify, hold harmless and defend the other Party, its affiliates, parents, directors, officers, representatives, employees and agents from and against any and all damages, claims, losses and costs, including reasonable attorney's fees, arising out of or related to the performance or nonperformance of any obligation, responsibility or commitment of such Party or its agents or representatives as set forth in the Proposal and this Agreement related to the contractual obligations of the Parties as set forth in Section 2(i) and Section 3. Furthermore, Vendor hereby agrees to indemnify, defend and hold harmless FairPoint and its End Users (as defined below) (and their respective affiliates, officers, directors, and employees) from and against any and all liabilities, demands, claims, causes of action, suits, and costs and expenses incidental thereto (including cost of defense, settlement, and reasonable attorneys' fees), resulting from or relating to allegations that the Combined 911 System and Services infringe or violate any claim of U.S. Patent No. 6,744,858 Entitled *System and Method for Supporting Multiple Call Centers* ("858 Patent") in accordance with the terms of that certain Letter of Indemnification dated October 26, 2012 between Vendor and FairPoint (the "Indemnity Letter"), which is incorporated by reference herein. For purposes of this Agreement, the Follow-On Agreement and the Indemnity Letter, "End Users" shall be deemed to include the Alabama 9-1-1 Board, the State of Alabama and any other agencies or departments thereof, that may purchase components of the Combined 911 System and Services pursuant to the State Agreement or any other agreement with FairPoint for the provision of a 911 system and/or services, including, without limitation, the NG 9-1-1 System (as defined in the Agreement and as may be further described in the Follow-On Agreement). Capitalized terms used but not defined herein shall have the meanings ascribed to them in the Indemnity Letter. Vendor acknowledges and agrees that its indemnification obligations under such Indemnity Letter are a material part of this teaming arrangement.

8. **LIMITATION OF LIABILITY.** EXCEPT FOR EACH PARTY'S INDEMNIFICATION OBLIGATIONS, ANY INFRINGEMENT OF THE OTHER PARTY'S INTELLECTUAL PROPERTY RIGHTS, ANY BREACH OF CONFIDENTIALITY OR IN THE EVENT OF FRAUD OR A PARTY'S WILLFUL MISCONDUCT OR GROSS NEGLIGENCE, NEITHER PARTY WILL BE LIABLE TO THE OTHER FOR ANY INDIRECT, SPECIAL, CONSEQUENTIAL, INCIDENTAL, OR PUNITIVE DAMAGES, WHETHER BASED ON LOST GOODWILL, LOST PROFITS, LOSS OR IMPAIRMENT OF DATA OR

SOFTWARE, OR OTHERWISE, AND WHETHER ARISING OUT OF BREACH OF EXPRESS OR IMPLIED WARRANTY, CONTRACT, TORT (INCLUDING NEGLIGENCE) OR OTHERWISE, REGARDLESS OF WHETHER SUCH PARTY HAS BEEN NOTIFIED OF THE POSSIBILITY OF SUCH DAMAGES OR IF SUCH DAMAGES COULD HAVE BEEN REASONABLY FORESEEN.

9. **GENERAL PROVISIONS.**

9.1 Costs and Expenses. Each Party will bear its own costs and expenses in connection with this Agreement and the preparation and submission of the Proposal. Neither Party shall have any right to any reimbursement, payment or compensation of any kind from the other during the period prior to an Award.

9.2 Intellectual Property. Except as expressly set forth in this Agreement, no license or ownership rights are granted, either directly or indirectly, by implication or estoppel or otherwise, to either Party under any patent, copyright or other intellectual property right of the other Party.

9.3 Independent Contractors. Nothing in this Agreement will be construed to constitute either of the Parties as principal and agent, employer and employee, partners or joint ventures. Excluding the Proposal, as mutually agreed upon by the Parties, this Agreement will not be construed as authority for either Party to act for the other Party or to represent that it has authority to bind the other Party in any capacity, or to enter into contracts or make commitments of any kind on behalf of the other Party. Excluding the Proposal, as mutually agreed upon by the Parties, this Agreement does not establish or grant ownership or license rights to either Party as a distributor, dealer, reseller, sales representative, or agent of any kind with respect to the other Party's products and/or services. This Agreement gives rise to no rights that would entitle a Party to receive commissions, royalties, finder's fees, referral fees, discounts or other considerations.

9.4 Entire Agreement; Amendment. This Agreement, all Exhibits hereto and all documents expressly incorporated by reference herein, contain the entire agreement between the Parties regarding the subject matter hereof, which supersedes any oral or written agreements, commitments, understanding, or communications between the Parties regarding the matters raised herein. No amendment to this Agreement will be valid or binding unless in writing and signed by both Parties.

9.5 Notices. All notices required or permitted to be given hereunder will be in writing, will refer to this Agreement, and will be either delivered by hand, sent via a prepaid overnight courier of national reputation or mailed via the U.S. Postal Service, postage prepaid, addressed to the Party at its mailing address set forth in the first paragraph of this Agreement, attention "Legal Department".

9.6 Severance. If any term or provision of this Agreement will be held void, illegal or unenforceable by a court of competent jurisdiction, this Agreement will be read and enforced without the offending provision and with a substitute provision intended to accomplish, to the maximum extent possible under the law, the intent of the Parties embodied in the offending provision.

9.7 Acknowledgement of Exclusivity. The Parties acknowledge, understand and agree that this Agreement, and the rights granted hereunder, shall be exclusive for both Parties.

9.8 Communications; Publicity. As between the Parties, FairPoint will assume the lead role for external communications regarding the Proposal and the State Agreement, unless otherwise agreed to by both Parties. Except for materials already made public and marketing collateral provided by a Party to the other Party, neither Party will distribute any news releases, articles, brochures, speeches, or advertisements concerning the execution or existence of this Agreement, nor use the other Party's name or trademarks (or any variation thereof), without the other Party's prior written consent.

9.9 Governing Law. This Agreement will be governed and controlled under the laws of the State of Alabama.

9.10 Compliance with the Law. Each Party hereby represents to the other Party that it is in compliance with all applicable laws, regulations, directives, rules and orders. If either Party believes that any proposed change in or new law, regulation, directive, rule or order would make illegal or prevent the Parties from performing their obligations in accordance with this Agreement, the Parties will meet and discuss in good faith what changes to make to the Agreement, if any.

9.11 Assignment and Benefit. Neither Party shall assign this Agreement (including by operation of law) in whole or in part, without the prior written consent of the other. No person or entity other than the Parties is or will be entitled to bring any action to enforce any provision of this Agreement against either of the Parties, and the covenants and agreements herein will be solely for the benefit of, and will be enforceable only by, the Parties or their respective permitted successors and assigns. Notwithstanding the foregoing, either Party may assign this Agreement to an affiliate or in connection with an assignment involving a purchase of all or a substantial portion of such Party's assets or capital stock, or any company with which or into which such Party may merge or consolidate. Any other assignment or transfer will be void and of no effect.

9.12 No Waiver. No course of dealing or failure of a Party to enforce strictly any term or provision of this Agreement, or to exercise any right, obligation, or option provided hereunder, will be construed as a waiver of such term, provision, right, obligation, or option.

9.13 Remedies. Either Party will be entitled to immediate injunctive relief in addition to any other rights and remedies available to it at law or in equity, without the posting of a bond or demonstration of irreparable harm, for breach by the other Party of its Confidential Information or intellectual property obligations. Except as stated herein, the rights and remedies of each Party are cumulative, and are in addition to any other rights or remedies available at law or in equity.

9.14 Survival. Section 5 (Confidentiality), Section 7 (Indemnification), Section 8 (Limitation of Liability) and Section 9 (General Provisions) will survive the expiration or termination of this Agreement or any Follow-On Agreement.

[Signature page follows]

IN WITNESS WHEREOF, the Parties hereto have executed this Agreement to be effective, valid, and binding upon the Parties as of the date below as executed by their duly authorized representatives.

FAIRPOINT BUSINESS SERVICES LLC	**SOLACOM TECHNOLOGIES, INC.**
Signature	Signature
Richard Murtha	**Andre Vaillant**
Printed Name	Printed Name
Vice President, Field Operations	**CFO**
Title	Title
March 2, 2016	**March 2, 2016**
Date	Date

TEAMING AGREEMENT

This Teaming Agreement (this "Agreement") is effective as of March 1, 2016 (the "Effective Date") by and between FairPoint Business Services LLC ("FairPoint"), a Delaware limited liability company, with a mailing address c/o FairPoint Communications, Inc., 521 E. Morehead Street, Suite 500, Charlotte, NC 28202 and Geo-Comm, Inc., a Minnesota corporation, with a principal place of business at 601 W. Saint Germain St., Saint Cloud, MN 56301 ("Vendor"). Each of FairPoint and Vendor may be referred to herein as a "Party", and collectively as the "Parties".

RECITALS

WHEREAS, FairPoint is a telecommunications service provider authorized to do business in the State of Alabama (the "FairPoint Services");

WHEREAS, Vendor is in the business of providing GIS mapping and data management solutions and professional services (the "Vendor Technology and Services");

WHEREAS, on January 21, 2016, the Alabama 9-1-1 Board (referred to herein as the "State") issued a Request for Proposal ("RFP") for an integrated network services for the operation of the State's ANGEN Network, a copy of which is incorporated by reference into and made a part of this Agreement;

WHEREAS, the Parties desire to work together in preparing a proposal (the "Proposal") in response to the RFP, in which FairPoint, as the prime contractor, will offer to provide an Internet Protocol-based, next generation 9-1-1 ESInet system and related services as specified in the RFP (together, the "NG 9-1-1 System"), using, in material part, the Vendor Technology and Services; and

WHEREAS, the RFP requires that FairPoint, when submitting the Proposal, agrees to be contractually bound by certain terms, conditions, certifications and representations and, therefore, the Parties desire to set forth their contractual obligations relative to the commitments which will be set forth in the final Proposal, a copy of which is incorporated by reference into and shall be made a part of this Agreement.

NOW, THEREFORE, for good and valuable consideration as stated herein, the receipt and sufficiency of which are hereby acknowledged, FairPoint and Vendor agree as follows:

AGREEMENT

1. **COLLABORATION**. The Parties agree to diligently cooperate and collaborate in good faith with each other and their respective designated representatives and agents during the Term (as defined herein) for the purpose of preparing the Proposal to provide the NG 9-1-1 System in accordance with the RFP. FairPoint shall prepare the Proposal and Vendor shall provide such input, review and information to be incorporated into the Proposal as FairPoint may request. If the Proposal is selected as the winner by the State (an "Award"), the Parties agree to collaborate and consult in good faith in connection with FairPoint's negotiation of a definitive technology services contract with the State for the provision of the NG 9-1-1 System (the "State Agreement"). In such event and concurrent with FairPoint's negotiation of the State Agreement, the Parties further agree that they shall negotiate a definitive master purchase and professional services agreement concerning their respective obligations in

providing the NG 9-1-1 System (the "Follow-On Agreement") whereby FairPoint shall act as a distributor and reseller of the Vendor Technology and Services to the State as specified in the Proposal.

2. **FOLLOW-ON AGREEMENT**. The obligations of the Parties set forth in this Section 2 are expressly subject to, as a condition subsequent, an Award. The terms and conditions detailing and describing the Parties' apportioned contributions, compensation, obligations, duties, responsibilities and liabilities for providing the NG 9-1-1 System to the State will be set forth in the Follow-On Agreement; provided, however, that the Parties hereby agree to be contractually bound by, and that the Follow-On Agreement shall at a minimum include, the following:

   (i) Vendor agrees that it will be contractually obligated to provide, and the Follow-On Agreement shall include, the products and services set forth on Schedule 1 hereto, which shall be included in the Proposal. Vendor further agrees that it will prepare and provide FairPoint with responses, or contribute to FairPoint's responses, to certain sections of the RFP as set forth on Schedule 1 and such other sections of the RFP as reasonably requested by FairPoint.

   (ii) Mutually agreeable service level agreements ("SLAs") and penalties consistent with those agreed to with the State as required by the RFP. Failure to achieve an SLA will result in associated defined penalties. Because a failure to achieve a given SLA could be triggered by one or more of the Parties providing products or services to the project, the Parties agree that it will be beneficial to the overall administration of the project to agree upon a methodology by which accountability for a given penalty is determined. The Parties intend to more specifically define such a methodology in the Follow-On Agreement.

   (iii) Following an Award, if the State requests a modification to the terms of the Proposal in connection with the negotiation of the State Agreement, the Parties shall promptly consult and negotiate in good faith a modification to the Follow-On Agreement to reflect the Parties mutually agreed upon and apportioned contributions, compensation, obligations, duties, responsibilities and liabilities in connection therewith in the timeframe required by the State.

3. **COVENANTS; REPRESENTATIONS AND WARRANTIES**. Vendor acknowledges that, FairPoint, in submitting the Proposal to the State, is required to contractually agree to provide (A) "Technical Specifications," the required contents of which shall include, among other things, a detailed technical proposal describing how FairPoint proposes to provide the NG 9-1-1 System, and (B) a "Cost Proposal," the required contents of which shall include, among other things, a proposal for the total cost of the NG 9-1-1 System. The Technical Specifications and the Cost Proposal shall be collectively referred to herein as the "Submissions". Vendor further acknowledges that the State's award decision will be based upon the Proposal's technical merit and compliance with the Technical Specifications set forth in the RFP. Finally, in the event of an Award, the Vendor acknowledges and agrees that both Parties will have certain obligations and responsibilities under the State Agreement, including any riders, exhibits or other attachments thereto.

   Accordingly, as it relates to the products and services to be provided by Vendor to FairPoint under the Proposal, Vendor (i) agrees, as a subcontractor to FairPoint, that Vendor is contractually bound by, and the Follow-On Agreement will include as a pass through section that will clearly define all responsibilities, representations, warranties, covenants, service level commitments and other obligations that are passed through or that flow down to Vendor pursuant to the RFP and the Proposal, and (ii) represents, warrants and covenants to FairPoint that the Submissions, including any responses given or made by Vendor included therein, are complete and accurate in all material respects and shall be binding contractual obligations of Vendor under this Teaming Agreement and the Follow-On Agreement. For the avoidance of doubt, Vendor acknowledges that the Vendor Technology and Services shall comply with any applicable or required data privacy laws, rules or regulations, breach notification requirements, compliance standards, audit controls and policy and procedures required by the State in the RFP and as set forth in the Proposal, unless otherwise stated as not compliant within the response that is sent to FairPoint.

4. **TERM AND TERMINATION.**

4.1 Term. The term of this Agreement ("Term") will begin on the Effective Date and will continue for a period of one (1) year thereafter subject to early termination as provided in Section 4.2.

4.2 Termination. This Agreement will terminate upon any of the following events:

(i) the State awards the contract for the NG 9-1-1 System to a party other than FairPoint;

(ii) if either Party defaults in the performance of any material provision of this Agreement, and such default is not cured within thirty (30) calendar days after written notice specifying, in reasonable detail, the nature of the default, or if either Party breaches any term or condition of the NDA (as defined below), then the non-defaulting Party may by further written notice terminate for cause this Agreement or may seek any other remedies available at law or in equity, including, without limitation, specific performance;

(iii) if either Party becomes insolvent, is unable to pay its debts when due, files for bankruptcy, is the subject of involuntary bankruptcy, has a receiver appointed, or has its assets assigned, the other Party may terminate this Agreement with thirty (30) days written notice;

(iv) the State rejects the Proposal, cancels the RFP or materially modifies the RFP or the Proposal in a manner reasonably unacceptable to either Party;

(v) the State requires FairPoint to use another service provider other than Vendor;

(vi) FairPoint notifies Vendor that FairPoint is ceasing its efforts with respect to the RFP or the Parties are unable to reach agreement on the terms of a Follow-On Agreement;

(vii) mutual written agreement of the Parties; or

(viii) execution of the Follow-On Agreement by FairPoint and Vendor.

5 **CONFIDENTIALITY.** The Parties or their affiliates have executed a Mutual Confidentiality and Nondisclosure Agreement dated February 12, 2016 (the "NDA") which is attached hereto as Exhibit A and the terms and conditions of which will govern and apply to the disclosure and use of confidential information exchanged under this Agreement and the Follow-On Agreement.

6 **POINTS OF CONTACT**. The Parties hereby designate the persons listed below as primary points of contact for purposes of this Agreement. A Party may replace its point of contact by providing written notice of such replacement to the other Party.

For Vendor:	Geo-Comm, Inc. Attn: Heather Hoskins, Controller 601 W. Saint Germain St. Saint Cloud, MN 56301
For FairPoint:	FairPoint Communications Attn: Karen Romano 1 Davis Farm Road Portland, Maine 04103

7 **INDEMNIFICATION**. Each Party shall indemnify, hold harmless and defend the other Party, its affiliates, parents, directors, officers, representatives, employees and agents from and against any and all damages, claims, losses and costs, including reasonable attorney's fees, arising out of or related to the performance or nonperformance of any obligation, responsibility or commitment of such Party or its agents or representatives as set forth in the Proposal and this Agreement including, without limitation, the contractual obligations of the Parties as set forth in Section 2 and Section 3.

8 **LIMITATION OF LIABILITY**. EXCEPT FOR EACH PARTY'S INDEMNIFICATION OBLIGATIONS, ANY BREACH OF CONFIDENTIALITY OR IN THE EVENT OF FRAUD OR A PARTY'S WILLFUL MISCONDUCT OR GROSS NEGLIGENCE, NEITHER PARTY WILL BE LIABLE TO THE OTHER FOR ANY INDIRECT, SPECIAL, CONSEQUENTIAL, INCIDENTAL, OR PUNITIVE DAMAGES, WHETHER BASED ON LOST GOODWILL, LOST PROFITS, LOSS OR IMPAIRMENT OF DATA OR SOFTWARE, OR OTHERWISE, AND WHETHER ARISING OUT OF BREACH OF EXPRESS OR IMPLIED WARRANTY, CONTRACT, TORT (INCLUDING NEGLIGENCE) OR OTHERWISE, REGARDLESS OF WHETHER SUCH PARTY HAS BEEN NOTIFIED OF THE POSSIBILITY OF SUCH DAMAGES OR IF SUCH DAMAGES COULD HAVE BEEN REASONABLY FORESEEN. NOTWITHSTANDING THE FOREGOING, VENDOR EXPRESSLY AGREES THAT ANY DAMAGES THAT ARE AWARDED AGAINST FAIRPOINT IN FAVOR OF THE STATE ARISING DIRECTLY FROM VENDOR'S BREACH OF THIS AGREEMENT SHALL BE CONSIDERED DIRECT DAMAGES OF FAIRPOINT AND NOT INDIRECT, SPECIAL, CONSEQUENTIAL, INCIDENTAL, OR PUNITIVE DAMAGES.

9 **GENERAL PROVISIONS.**

9.1 Costs and Expenses. Each Party will bear its own costs and expenses in connection with this Agreement and the preparation and submission of the Proposal. Neither Party shall have any right to any reimbursement, payment or compensation of any kind from the other during the period prior to an Award.

9.2 Intellectual Property. Except as expressly set forth in this Agreement, no license or ownership rights are granted, either directly or indirectly, by implication or estoppel or otherwise, to either Party under any patent, copyright or other intellectual property right of the other Party.

9.3 Independent Contractors. Nothing in this Agreement will be construed to constitute either of the Parties as principal and agent, employer and employee, partners or joint ventures. Excluding the Proposal, as mutually agreed upon by the Parties, this Agreement will not be construed as authority for either Party to act for the other Party or to represent that it has authority to bind the other Party in any capacity, or to enter into contracts or make commitments of any kind on behalf of the other Party. Excluding the Proposal, as mutually agreed upon by the Parties, this Agreement does not establish or grant ownership or license rights to either Party as a distributor, dealer, reseller, sales representative, or agent of any kind with respect to the other Party's products and/or services. This Agreement gives rise to no rights that would entitle a Party to receive commissions, royalties, finder's fees, referral fees, discounts or other considerations.

9.4 Entire Agreement; Amendment. This Agreement, all Exhibits hereto and all documents expressly incorporated by reference herein, contain the entire agreement between the Parties regarding the subject matter hereof, which supersedes any oral or written agreements, commitments, understanding, or communications between the Parties regarding the matters raised herein. No amendment to this Agreement will be valid or binding unless in writing and signed by both Parties.

9.5 Notices. All notices required or permitted to be given hereunder will be in writing, will refer to this Agreement, and will be either delivered by hand, sent via a prepaid overnight courier of national reputation or mailed via the U.S. Postal Service, postage prepaid, addressed to the Party at its mailing address set forth in the first paragraph of this Agreement, attention "Legal Department".

9.6 Severance. If any term or provision of this Agreement will be held void, illegal or unenforceable by a court of competent jurisdiction, this Agreement will be read and enforced without the offending provision and with a substitute provision intended to accomplish, to the maximum extent possible under the law, the intent of the Parties embodied in the offending provision.

9.7 Acknowledgement of Non-Exclusivity. The Parties acknowledge, understand and agree that this Agreement, and the rights granted hereunder, shall be non-exclusive for both Parties.

9.8 Communications; Publicity. As between the Parties, FairPoint will assume the lead role for external communications regarding the Proposal and the State Agreement, unless otherwise agreed to by both Parties. Except for materials already made public and marketing collateral provided by a Party to the other Party, neither Party will distribute any news releases, articles, brochures, speeches, or advertisements concerning the execution or existence of this Agreement, nor use the other Party's name or trademarks (or any variation thereof), without the other Party's prior written consent.

9.9 Governing Law. This Agreement will be governed and controlled under the laws of the State of Alabama.

9.10 Compliance with the Law. Each Party hereby represents to the other Party that it is in compliance with all applicable laws, regulations, directives, rules and orders. If either Party believes that any proposed change in or new law, regulation, directive, rule or order would make illegal or prevent the Parties from performing their obligations in accordance with this

Agreement, the Parties will meet and discuss in good faith what changes to make to the Agreement, if any.

9.11 Assignment and Benefit. Neither Party shall assign this Agreement (including by operation of law) in whole or in part, without the prior written consent of the other. No person or entity other than the Parties is or will be entitled to bring any action to enforce any provision of this Agreement against either of the Parties, and the covenants and agreements herein will be solely for the benefit of, and will be enforceable only by, the Parties or their respective permitted successors and assigns. Notwithstanding the foregoing, either Party may assign this Agreement to an affiliate or in connection with an assignment involving a purchase of all or a substantial portion of such Party's assets or capital stock, or any company with which or into which such Party may merge or consolidate. Any other assignment or transfer will be void and of no effect.

9.12 No Waiver. No course of dealing or failure of a Party to enforce strictly any term or provision of this Agreement, or to exercise any right, obligation, or option provided hereunder, will be construed as a waiver of such term, provision, right, obligation, or option.

9.13 Remedies. Either Party will be entitled to immediate injunctive relief in addition to any other rights and remedies available to it at law or in equity, without the posting of a bond or demonstration of irreparable harm, for breach by the other Party of its Confidential Information or intellectual property obligations. Except as stated herein, the rights and remedies of each Party are cumulative, and are in addition to any other rights or remedies available at law or in equity.

9.14 Survival. Section 5 (Confidentiality), Section 7 (Indemnification), Section 8 (Limitation of Liability) and Section 9 (General Provisions) will survive the expiration or termination of this Agreement or any Follow-On Agreement.

[Signature page follows]

IN WITNESS WHEREOF, the Parties hereto have executed this Agreement to be effective, valid, and binding upon the Parties as of the date below as executed by their duly authorized representatives.

FAIRPOINT BUSINESS SERVICES LLC

Signature

Richard Murtha

Printed Name

Vice President, Field Operations

Title

March 1, 2016

Date

GEO-COMM, INC.

Heather Hoskins

Signature

Heather Hoskins

Printed Name

Controller

Title

3/1/16

Date

Delaware

The First State

I, JEFFREY W. BULLOCK, SECRETARY OF STATE OF THE STATE OF DELAWARE, DO HEREBY CERTIFY THE ATTACHED ARE TRUE AND CORRECT COPIES OF ALL DOCUMENTS ON FILE OF "FAIRPOINT BUSINESS SERVICES LLC" AS RECEIVED AND FILED IN THIS OFFICE.

THE FOLLOWING DOCUMENTS HAVE BEEN CERTIFIED:

CERTIFICATE OF FORMATION, FILED THE TWENTY-FOURTH DAY OF JUNE, A.D. 2011, AT 11:47 O'CLOCK A.M.

AND I DO HEREBY FURTHER CERTIFY THAT THE AFORESAID CERTIFICATES ARE THE ONLY CERTIFICATES ON RECORD OF THE AFORESAID LIMITED LIABILITY COMPANY, "FAIRPOINT BUSINESS SERVICES LLC".

SECRETARY OF STATE · DELAWARE · 1776 · 1976

Jeffrey W. Bullock, Secretary of State

5001862 8100H

120380237

AUTHENTICATION: 9473058

DATE: 03-31-12

You may verify this certificate online at corp.delaware.gov/authver.shtml

CERTIFICATE OF FORMATION

of

FAIRPOINT BUSINESS SERVICES LLC

The undersigned, desiring to form a limited liability company pursuant to the Delaware Limited Liability Company Act, 6 Delaware Code, Chapter 18, does hereby certify as follows:

FIRST. The name of the limited liability company formed hereby (the "Company") is **FairPoint Business Services LLC**.

SECOND. The address of the Company's registered office in the State of Delaware is c/o The Corporation Trust Company, Corporation Trust Center, 1209 Orange Street, New Castle County, Wilmington, Delaware 19801. The name of the Company's registered agent for service of process in the State of Delaware at such address is The Corporation Trust Company.

IN WITNESS WHEREOF, the undersigned has executed this Certificate of Formation of FairPoint Business Services LLC, as of this 24th day of June 2011.

/s/ Terrence Boyle
Terrence Boyle
Authorized Person

State of Delaware
Secretary of State
Division of Corporations
Delivered 11:56 AM 06/24/2011
FILED 11:47 AM 06/24/2011
SRV 110759271 - 5001862 FILE

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

Form 10-K

(Mark One)

☑ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934.**

For the fiscal year ended December 31, 2010.

or

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

For the transition period from to

Commission File Number 001-32408

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

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

Registrant's Telephone Number, Including Area Code:
(704) 344-8150

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	Name of Exchange on Which Registered
Common Stock, par value $0.01 per share	The Nasdaq Stock Market LLC (Nasdaq Capital Market)

Securities registered pursuant to Section 12(g) of the Act:
None

Indicate by check mark if the Registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☐ No ☑

Indicate by check mark if the Registrant is not required to file reports pursuant to Section 13 or 15(d) of the Act. Yes ☐ No ☑

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

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (Section 229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☑

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

Large accelerated filer ☐	Accelerated filer ☐	Non-accelerated filer ☑ (Do not check if a smaller reporting company)	Smaller reporting company ☐

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes ☐ No ☑

The aggregate market value of the common stock held by non-affiliates of the registrant as of June 30, 2010 (based on the closing price of $0.053 per share as quoted on the Pink Sheets as of such date) was approximately $4,723,851.

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

As of March 25, 2011, there were 26,197,432 shares of the Registrant’s common stock, par value $0.01 per share, outstanding.

Documents incorporated by reference: **None**

* The Registrant is not currently required to file any such Interactive Data Files.

ANNUAL REPORT ON FORM 10-K
FOR THE YEAR ENDED DECEMBER 31, 2010

PART I

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

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

- risks related to our ability to meet our expectations with respect to our post-restructuring operating and financial objectives and the assumptions and business plan associated therewith;
- risks related to our reported financial information and operating results including with respect to our adoption of fresh start accounting and our actual results as compared to projected financial results;
- future performance generally and our share price as a result thereof;
- restrictions imposed by the agreements governing our indebtedness;
- our ability to satisfy certain financial covenants included in the agreements governing our indebtedness;
- financing sources and availability, and future interest expense;
- our ability to refinance our indebtedness on commercially reasonable terms, if at all;
- anticipated business development activities and future capital expenditures;
- the effects of regulation, including restrictions and obligations imposed by federal and state regulators as a condition to the approval of the Merger and the Plan (each as defined herein);
- material adverse changes in economic and industry conditions and labor matters, including workforce levels and labor negotiations, and any resulting financial or operational impact, in the markets we serve;
- material technological developments and changes in the communications industry, including disruption of our third party suppliers' provisioning of critical products or services;
- the effects of competition on the markets we serve;
- use by customers of alternative technologies and the loss of access lines;
- availability and levels of regulatory support payments;
- availability of net operating loss ("NOL") carryforwards to offset anticipated tax liabilities;
- our ability to meet obligations to our Company-sponsored pension plans and post-retirement healthcare plans; and
- changes in accounting assumptions that regulatory agencies, including the Securities and Exchange Commission (the "SEC"), may require or that result from changes in the accounting rules or their application, which could result in an impact on earnings.

These forward-looking statements include, but are not limited to, statements about our plans, objectives, expectations and intentions and other statements contained in this Annual Report that are not historical facts. When used in this Annual Report, the words "expects," "anticipates," "intends," "plans," "believes," "seeks," "estimates" and similar expressions are generally intended to identify forward-looking statements. Because these forward-looking statements involve known and unknown risks and uncertainties, there are important factors that could cause actual results, events or developments to differ materially from those expressed or implied by these forward-looking statements, including our plans, objectives, expectations and intentions and other factors discussed under "Item 1A.

Risk Factors" and other parts of this Annual Report. You should not place undue reliance on such forward-looking statements, which are based on the information currently available to us and speak only as of the date on which this Annual Report was filed with the SEC. We undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. However, your attention is directed to any further disclosures made on related subjects in our periodic reports filed with the SEC on Forms 10-K, 10-Q and 8-K and Schedule 14A.

EXPLANATORY NOTE

Overview of Restatement

In this Annual Report on Form 10-K for our fiscal year ended December 31, 2010 (this "Annual Report"), FairPoint Communications, Inc. (the "Company") is restating its unaudited quarterly financial statements for the quarters ended March 31, 2010, June 30, 2010 and September 30, 2010 (collectively, the "2010 Interim Consolidated Financial Statements").

The Company's previously filed Quarterly Reports on Form 10-Q for the quarters ended March 31, 2010, June 30, 2010 and September 30, 2010 (collectively, the "2010 Quarterly Reports") impacted by the restatement have not been and will not be amended. Accordingly, the Company cautions you that certain information contained in the 2010 Quarterly Reports should no longer be relied upon, including the Company's previously issued and filed 2010 Interim Consolidated Financial Statements and any financial information derived therefrom. In addition, the Company cautions you that other communications or filings related to the 2010 Interim Consolidated Financial Statements should no longer be relied upon. See note 17 to the consolidated financial statements in this Annual Report for more information regarding the impact of these adjustments on the 2010 Interim Consolidated Financial Statements. All of the Company's Quarterly Reports on Form 10-Q that will be filed for fiscal year 2011 will include restated results for the corresponding interim periods of 2010. All amounts in this Annual Report affected by the restatement adjustments reflect such amounts as restated.

Background of the Restatement

As previously disclosed in the Company's Current Report on Form 8-K filed with the SEC on March 22, 2011, management of the Company, with the concurrence of the Audit Committee of the Company's Board of Directors (the "Audit Committee"), concluded that the Company would restate the 2010 Interim Consolidated Financial Statements.

In connection with the preparation of the Company's audited financial statements for the year ended December 31, 2010, management has discovered accounting errors that impact the accuracy of the Company's previously issued 2010 Interim Consolidated Financial Statements. These errors were detected in areas in which the Company had previously identified and disclosed material weaknesses in internal controls.

The restated financial statements correct the following errors:

Project Abandonment Adjustment

Certain capital projects, principally a wireless broadband fixed asset project, had been abandoned but the write-off of all of the related capitalized costs had not occurred in a timely manner.

Costs Capitalized to Property, Plant and Equipment Adjustment

Due to a backlog of capital projects not yet closed, certain costs (principally labor expenses) remained capitalized to property, plant and equipment rather than expensed.

Application of Overhead Costs Adjustment

An error was discovered in the application of overhead costs to capital projects.

Each of the errors noted above resulted in an understatement of operating expenses and an overstatement of property, plant and equipment.

Other Adjustments

In addition, as part of this restatement, the Company also adjusted other items, including certain adjustments to revenue that were identified in connection with the preparation of the consolidated financial statements for the year ended December 31, 2010, which individually were not considered to be material, but are material when aggregated with the three adjustments noted above. These adjustments are primarily related to (a) errors in the calculation of certain regulatory penalties, and (b) errors in revenue associated with certain customer billing, special project billings and intercompany/official lines. The restatement only affects the first three quarterly periods of 2010.

The Company is currently reviewing the design of its controls and procedures in order to remediate the material weakness that prevented these accounting errors from being detected in a timely manner. While the Company implements a system solution, the Company has increased the resources devoted to manual processes to compensate for the material weakness. The material weakness has been identified and is further described in Part II — Item 9A — *Controls and Procedures.*

The aggregate impact of these adjustments will result in an increase to the Company's previously reported pre-tax loss for the nine month period ended September 30, 2010 of approximately $28.4 million, which is mainly attributable to a reduction to reported revenues of approximately $3.9 million, an increase to the Company's previously reported expenses of approximately $26.8 million, a decrease in other expense of approximately $3.2 million and a $0.9 million increase of expense to reorganization items. The aggregate impact of the adjustments for the nine months ended September 30, 2010 will result in a reduction in net income of $28.4 million, net of taxes, and a decrease in the Company's reported capital expenditures of approximately $15.4 million.

Cash, as previously reported, for the nine months ended September 30, 2010 was not impacted by these adjustments. In addition, the Company expects that these adjustments will not have a material impact on the Company's overall liquidity in the future.

Except as required to reflect the effects of the restatement for the items set forth above, no additional modifications or updates have been made to the 2010 Interim Consolidated Financial Statements or the 2010 Quarterly Reports. For example, this Annual Report does not give effect to any subsequent events that may impact the 2010 Interim Consolidated Financial Statements or the 2010 Quarterly Reports. Other information not affected by the restatement remains unchanged and continues to reflect the disclosures made at the time of the original filing of the 2010 Quarterly Reports.

ITEM 1. BUSINESS

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

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

Emergence from Chapter 11 Proceedings

On October 26, 2009 (the "Petition Date"), FairPoint Communications and substantially all of its direct and indirect subsidiaries filed voluntary petitions for relief under chapter 11 of title 11 ("Chapter 11") of the United States Code (the "Bankruptcy Code") in the United States Bankruptcy Court for the Southern District of New York (the "Bankruptcy Court") (Case No. 09-16335) (collectively, the "Chapter 11 Cases").

On January 13, 2011, the Bankruptcy Court entered an Order Confirming Debtors' Third Amended Joint Plan of Reorganization Under Chapter 11 of the Bankruptcy Code, dated as of December 29, 2010 (the "Confirmation Order"), which confirmed our Third Amended Joint Plan of Reorganization Under Chapter 11 of the Bankruptcy Code (as confirmed, the "Plan").

On January 24, 2011 (the "Effective Date"), we substantially consummated our reorganization through a series of transactions contemplated by the Plan, and the Plan became effective pursuant to its terms.

Plan of Reorganization

General

The Plan provided for the cancellation and extinguishment on the Effective Date of all our equity interests outstanding on or prior to the Effective Date, including but not limited to all outstanding shares of our common stock, par value $0.01 per share (the "Old Common Stock"), options and contractual or other rights to acquire any equity interests.

The Plan provided for:

- (i) The lenders under the Credit Agreement, dated as of March 31, 2008, by and among FairPoint Communications, Spinco, Bank of America, N.A. as syndication agent, Morgan Stanley Senior Funding, Inc. and Deutsche Bank Securities Inc., as co-documentation agents, and Lehman Commercial Paper Inc., as administrative agent, and the lenders party thereto (as amended, supplemented or otherwise modified from time to time, the "Pre-Petition Credit Facility"), (ii) the administrative agent under the Pre-Petition Credit Facility (other than certain indemnity and reimbursement rights of the administrative agent which survived) and (iii) holders of other claims against us arising under the Pre-Petition Credit Facility or ancillary agreements (including swap agreements) (collectively, "Pre-Petition Credit Facility Claims") to receive the following in full and complete satisfaction of such Pre-Petition Credit Facility Claims: (i) a pro rata share of a $1,000.0 million term loan facility (the "Exit Term Loan"), (ii) a pro rata share of certain cash payments, (iii) a pro rata share of 23,620,718 shares of our new common stock, par value $0.01 per share (the "New Common Stock" or "Common Stock") and (iv) a pro rata share of a 55% interest in the FairPoint Litigation Trust (the "Litigation Trust");
- Holders of allowed unsecured claims against FairPoint Communications, including the Pre-Petition Notes, as defined below, (the "FairPoint Communications Unsecured Claims") to receive the following in full and complete satisfaction of such FairPoint Communications Unsecured Claims: (i) a pro rata share of 2,101,676 shares of New Common Stock, (ii) a pro rata share of a 45% interest in the Litigation Trust and (iii) a pro rata share of the warrants issued by us in connection with a Warrant Agreement (the "Warrant Agreement") that we entered into with The Bank of New York Mellon, as warrant agent, on the Effective Date; and
- Holders of allowed unsecured claims against our subsidiaries and holders of certain unsecured convenience claims against us to receive payment in full in cash in the amount of their allowed claims.

In addition, the Plan also provided for:

- Certain of our employees and a consultant of ours to receive (a) cash bonuses made pursuant to the FairPoint

Communications, Inc. 2010 Success Bonus Plan (the "Success Bonus Plan") and/or (b) New Common Stock awards, consisting of restricted shares of New Common Stock and/or options to purchase shares of New Common Stock, pursuant to the terms of the FairPoint Communications, Inc. 2010 Long Term Incentive Plan (the "Long Term Incentive Plan"); and

- Members of our board to be appointed on the Effective Date (the "New Board") to receive options to purchase New Common Stock pursuant to the terms of the Long Term Incentive Plan.

Finally, the Plan included certain discharges, releases, exculpations and injunctions that became effective on the Effective Date, including the following:

- Except as otherwise provided in the Plan, all existing claims against, and equity interests in, us that arose prior to the Effective Date were released, terminated, extinguished and discharged;
- In consideration of the services of the Released Parties (as defined in the Plan), we and all persons who held, or may have held, claims against, or equity interests in, us prior to the Effective Date released the Released Parties (as defined in the Plan) from claims, causes of action and liabilities related to us;
- None of the Company, the Released Parties (as defined in the Plan) or the Litigation Trustee (as defined below) shall have or incur any liability relating to or arising out of the Chapter 11 Cases; and
- Except as otherwise provided in the Plan, all persons are permanently enjoined from asserting claims, liabilities, causes of action, interest or remedies that are released or discharged pursuant to the Plan.

Termination of Material Agreements

On the Effective Date, in accordance with the Plan, we terminated, among others, the following material agreements:

- The Pre-Petition Credit Facility (except that the Pre-Petition Credit Facility continues in effect solely for the purposes of allowing creditors under the Pre-Petition Credit Facility to receive distributions under the Plan and to preserve certain rights of the administrative agent), and all notes, security agreements, swap agreements and other agreements associated therewith;
- Each of the respective indentures governing (i) the 13-1/8% Senior Notes due April 1, 2018 (the "Old Notes"), which were issued pursuant to the Indenture, dated as of March 31, 2008, by and between Spinco and U.S. Bank National Association, as amended (the "Old Indenture"), and (ii) the 13-1/8% Senior Notes due April 2, 2018 (the "New Notes" and, together with the Old Notes, the "Pre-Petition Notes"), which were issued pursuant to the Indenture, dated as of July 29, 2009, by and between FairPoint Communications, Inc. and U.S. Bank National Association (the "New Indenture") (except to the extent to allow us or the relevant Pre-Petition Notes indenture trustee, as applicable, to make distributions pursuant to the Plan on account of claims related to such Pre-Petition Notes); and
- Our Debtor-in-Possession Credit Agreement, dated as of October 27, 2009 (as amended, the "DIP Credit Agreement"), by and among FairPoint Communications and FairPoint Logistics, Inc. ("FairPoint Logistics," and together with FairPoint Communications, the "DIP Borrowers"), certain financial institutions (the "DIP Lenders") and Bank of America, N.A., as the administrative agent for the DIP Lenders, which was terminated by its conversion into the new $75.0 million Exit Revolving Facility, and all notes, security agreements and other agreements related to the DIP Credit Agreement.

Exit Credit Agreement

On the Effective Date, FairPoint Communications and FairPoint Logistics entered into a $1,075.0 million senior secured credit facility with a syndicate of lenders and Bank of America, N.A., as the administrative agent for the lenders, arranged by Banc of America Securities LLC (the "Exit Credit Agreement"). The Exit Credit Agreement is comprised of a $75.0 million revolving loan facility (the "Exit Revolving Facility"), which has a sub-facility providing for the issuance of up to $30.0 million of letters of credit, and a $1,000.0 million term loan facility (the "Exit Term Loan" and together with the Exit Revolving Facility and such letter of credit facility, collectively, the "Exit Credit Agreement Loans"). On the Effective Date, we paid to the lenders providing the Exit Revolving Facility an aggregate fee equal to $1.5 million. Interest on the Exit Credit Agreement Loans accrues at an annual rate equal to either (a) the British Bankers Association LIBOR Rate ("LIBOR") plus 4.50%, with a minimum LIBOR floor of 2.00% for the Exit Term Loan, or (b) a base rate plus 3.50% per annum in which base rate is equal to the highest of (x) Bank of America's prime rate, (y) the federal funds effective rate plus 0.50% and (z) applicable LIBOR (with minimum LIBOR floor of 2.00%) plus 1.00%. In addition, we are required to pay a 0.75% per annum commitment fee on the average daily unused portion of the Exit Revolving Facility. The entire outstanding principal amount of the Exit Credit Agreement Loans is due and payable five years after the Effective Date (the "Exit Maturity Date"); provided that on the third anniversary of the Effective Date, we must elect (subject to the absence of events of default under the Exit Credit Agreement) to continue the maturity of the Exit Revolving Facility and must pay a continuation fee of $0.75 million and, on the fourth anniversary of the Effective Date, we must elect (subject to the absence of events of default under the Exit Credit Agreement) to continue the maturity of the Exit Revolving Facility and must pay a second continuation fee of $0.75 million. The Exit Credit Agreement requires quarterly repayments of principal of the Exit Term Loan after the first anniversary of the Effective Date. In the second and third years following the Effective Date, such quarterly payments shall each be in an amount equal to $2.5 million; during the fourth year following the Effective Date, such quarterly payments shall each be in an amount equal to $6.25 million; and for the first three quarters during the fifth year following the Effective Date, such quarterly payments shall each be in an amount equal to $12.5 million, with all remaining outstanding amounts owed in respect of the Exit Term Loan being due and payable on the Exit Maturity Date.

The Exit Credit Agreement Loans are guaranteed by all of our current and future direct and indirect subsidiaries, other than (x) any subsidiary that is prohibited by applicable law from guaranteeing the obligations under the Exit Credit Agreement Loans and/or providing any security therefor without the consent of a state public utilities commission, and (y) any subsidiary of ours that is a controlled foreign corporation or a subsidiary that is held directly or indirectly by a controlled foreign corporation (the guarantor subsidiaries, together with us and FairPoint Logistics, are collectively referred to as the "Exit Financing Loan Parties"). The Exit Credit Agreement Loans as a whole are secured by liens upon substantially all existing and after-acquired assets of the Exit Financing Loan Parties, with first lien and payment waterfall priority for the Exit Revolving Facility and second lien priority for the Exit Term Loan.

The Exit Credit Agreement contains customary representations, warranties and affirmative covenants. In addition, the Exit Credit Agreement contains restrictive covenants that limit, among other things, the ability of the Exit Financing Loan Parties to incur indebtedness, create liens, engage in mergers, consolidations and other fundamental changes, make investments or loans, engage in transactions with affiliates, pay dividends, make capital expenditures and repurchase capital stock. The Exit Credit Agreement also contains minimum interest coverage and maximum total leverage maintenance covenants, along with a maximum senior leverage covenant measured upon the incurrence of certain types of debt. The Exit Credit Agreement contains certain events of default, including failure to make payments, breaches of covenants and representations, cross defaults to other material indebtedness, unpaid and uninsured judgments, changes of control and bankruptcy events of default. The lenders' commitments to fund amounts under the Exit Credit Agreement are subject to certain customary conditions.

Certificate of Incorporation and By-laws

Pursuant to the Plan, on the Effective Date, we filed with the Secretary of State of the State of Delaware the Ninth Amended and Restated Certificate of Incorporation of FairPoint Communications and adopted our Second Amended and Restated By-laws (the "By-laws").

Departure and Appointment of Directors

Pursuant to the Plan, as of the Effective Date, the following directors ceased to serve on our board of directors: Thomas F. Gilbane, Jr., Robert S. Lilien, Claude C. Lilly, Jane E. Newman and Michael R. Tuttle.

As of the Effective Date, the number of directors on the New Board was fixed at eight, with Todd W. Arden, Dennis J. Austin, Edward D. Horowitz, Michael J. Mahoney, Michael K. Robinson, David L. Treadwell and Wayne Wilson becoming members of the

New Board and Mr. Horowitz was appointed to serve as chair of the New Board. Paul H. Sunu, our Chief Executive Officer, became a director of ours effective as of August 24, 2010 and will continue to serve as a director on the New Board.

In accordance with the By-laws, the initial members of the New Board are expected to hold office until the first annual meeting of stockholders which will be held following the one year anniversary of the Effective Date. Thereafter, members of the New Board are expected to have one-year terms so that their terms will expire at each annual meeting of stockholders.

Registration Rights Agreement

On the Effective Date, we entered into a registration rights agreement (the "Registration Rights Agreement") with Angelo, Gordon & Co., L.P. ("Angelo Gordon"), on behalf of and as investment manager of the persons set forth in the Registration Rights Agreement (together with Angelo Gordon, the "Ten Percent Holders") that hold in the aggregate at least 10% of our New Common Stock. Under the Registration Rights Agreement, the Ten Percent Holders are entitled to request an aggregate of two registrations of the Ten Percent Holders' registrable securities; provided that no such rights shall be demanded prior to the expiration of 180 days from the Effective Date. If the Ten Percent Holders in the aggregate hold less than 7.5% of the then outstanding New Common Stock, such holders' rights under the Registration Rights Agreement shall terminate.

Warrant Agreement

On the Effective Date, we entered into the Warrant Agreement with the Bank of New York Mellon, as Warrant Agent. Pursuant to the Warrant Agreement, we issued or will issue the Warrants to purchase an aggregate of 3,582,402 shares of New Common Stock. The number of shares of New Common Stock issuable upon the exercise of the Warrants is subject to adjustment upon the occurrence of certain events described in the Warrant Agreement. The initial exercise price applicable to the Warrants is $48.81 per share of New Common Stock for which the Warrants may be exercised. The exercise price applicable to the Warrants is subject to adjustment upon the occurrence of certain events described in the Warrant Agreement. The Warrants may be exercised at any time on or before the seventh anniversary of the Effective Date. The Warrants, and all rights under the Warrants, are transferable as provided in the Warrant Agreement.

Litigation Trust Agreement

On the Effective Date, we entered into the FairPoint Litigation Trust Agreement (the "Litigation Trust Agreement") with Mark E. Holliday, as litigation trustee (the "Litigation Trustee"), and the official committee of unsecured creditors appointed in the Chapter 11 Cases, pursuant to which the Litigation Trust was established for the benefit of specified holders of allowed claims and for the pursuit of certain causes of action against Verizon arising in connection with the Agreement and Plan of Merger, dated as of January 15, 2007, by and among Verizon, Spinco and FairPoint Communications, Inc., as amended (the "Merger Agreement"). Pursuant to the Plan, we transferred such claims and causes of actions against Verizon related to the Merger Agreement to the Litigation Trust with title to such claims and causes of action being free and clear of all liens, charges, claims, encumbrances and interests except for the return to FairPoint Communications of any funds deposited in the Litigation Trust bank account. In addition, pursuant to the Plan, we transferred funds to the Litigation Trust to pay the reasonable costs and expenses associated with the administration of the Litigation Trust. Pursuant to the Litigation Trust Agreement, the Litigation Trustee may request additional funding for the Litigation Trust from us following the Effective Date; provided, that (i) any such additional funding will be subject to the approval of our New Board in its sole discretion, (ii) after giving effect to such additional funding, our cash on hand may not be less than $20.0 million (after taking into account the cash distributions to be made) and (iii) no proceeds of any borrowings under the Exit Revolving Facility may be used to fund such additional funding. The Litigation Trustee may prosecute the transferred claims and causes of action against Verizon as described in and authorized by the Plan and the Litigation Trust Agreement, make timely and appropriate distributions to the beneficiaries of the Litigation Trust and otherwise carry out the provisions of the Litigation Trust Agreement.

New Long Term Incentive Plan and Success Bonus Plan

As contemplated by the Plan, on the Effective Date, we were deemed to have adopted the Long Term Incentive Plan and the Success Bonus Plan.

On the Effective Date, in accordance with the Plan, (i) certain of our employees and a consultant of ours received (a) Success Bonuses of approximately $1.8 million in the aggregate pursuant to the terms of the Success Bonus Plan and/or (b) New Common Stock awards, consisting of restricted shares of New Common Stock and/or options to purchase shares of New Common Stock, pursuant to the terms of the Long Term Incentive Plan, and (ii) members of the New Board received restricted shares of New Common Stock and options to purchase New Common Stock pursuant to the terms of the Long Term Incentive Plan. The Success Bonuses were earned by our employees and were primarily based upon achieving certain performance measures. 3,134,603 shares of New Common Stock are reserved for awards under the Long Term Incentive Plan, of which stock options and restricted share awards were granted to certain of our employees, a consultant of ours, and members of the New Board on the Effective Date. Specifically, on the Effective Date, (a) 460,294 shares of stock were distributed to management-level and other employees and a consultant of ours, with 120,000 restricted shares issued to our Chief Executive Officer, 34,000 restricted shares issued to our Chief Financial Officer, 161,800 restricted shares issued to other members of our senior management and 66,794 unrestricted shares issued to David L. Hauser, our former Chief Executive Officer, who is currently a consultant, (b) 87,498 shares of restricted stock were awarded to the members of the New Board and (c) stock options were granted with an exercise price of $24.29 for the purchase of (1) 859,000 shares of New Common Stock by management-level and other employees, with 125,000 options to purchase New Common Stock granted to our Chief Executive Officer, 42,000 options to purchase New Common Stock granted to our Chief Financial Officer and 236,500 options to purchase New Common Stock granted to other members of our senior management and (2) 132,012 shares of New Common Stock by members of the New Board. Except for the unrestricted shares awarded to David L. Hauser, these stock option and restricted share awards vested to the extent of 25% on the Effective Date, and the remainder of these awards is expected to vest in three equal annual installments, commencing on the first anniversary of the Effective Date, with accelerated vesting upon (x) a change in control, or (y) a termination of an award holder's employment either without cause (but only to the extent the vesting becomes at least 50%, plus an additional 25% for each year of the award holder's employment after the first year after the Effective Date) or due to the award holder's death or disability (but, for stock options, only to the extent vesting would have otherwise occurred within one year following such termination of employment). Mr. Hauser's shares were 100% vested on the Effective Date.

Regulatory Settlements

In connection with the Chapter 11 Cases, we negotiated with representatives of the state regulatory authorities in each of Maine, New Hampshire and Vermont with respect to (i) certain regulatory approvals relating to the Chapter 11 Cases and the Plan and (ii) certain modifications to the requirements imposed by state regulatory authorities as a condition to approval of the Merger (each a "Merger Order," and collectively, the "Merger Orders"). We agreed to regulatory settlements with the representatives for each of Maine, New Hampshire and Vermont regarding modification of each state's Merger Order (each a "Regulatory Settlement," and collectively, the "Regulatory Settlements"). For more information regarding the Regulatory Settlements, see "Item 1. Business — State Regulation — Regulatory Conditions to the Merger, as Modified in Connection with the Plan."

Reporting Requirements

In connection with the Chapter 11 Cases, regardless of the Effective Date having occurred, we are required to continue to file quarterly operating reports with the Bankruptcy Court until the Chapter 11 Cases have closed. Such reports have been and will be prepared according to requirements of federal bankruptcy law and related rules. While these reports accurately provide then-current information required under the Bankruptcy Code, they are nonetheless unaudited, are prepared in a format different from that used in our consolidated financial statements filed under the securities laws and certain of this financial information may be prepared on an unconsolidated basis. Accordingly, we believe that the substance and format of these reports do not allow meaningful comparison with our regular publicly-disclosed consolidated financial statements. Moreover, the quarterly operating reports filed with the Bankruptcy Court are not prepared for the purpose of providing a basis for an investment decision relating to our securities, or for comparison with other financial information filed by us with the SEC.

Plan Injunction

Except as otherwise provided in the Plan, the Confirmation Order enjoined, or stayed, the continuation of any judicial or administrative proceedings or other actions against us or our properties to recover on, collect or secure a claim arising prior to the Effective Date. Thus, for example, creditor actions to obtain possession of property from us, or to create, perfect or enforce any lien against our property, or to collect on monies owed or otherwise exercise rights or remedies with respect to a claim arising prior to the Effective Date are enjoined except as provided in the Plan.

Fresh Start Accounting

Upon our emergence from Chapter 11 on January 24, 2011, we adopted fresh start accounting in accordance with guidance under the applicable reorganization accounting rules, pursuant to which our reorganization value, which represents the fair value of the entity before considering liabilities, and approximates the amount a willing buyer would pay for the assets of the entity immediately after the reorganization, has been allocated to the fair value of assets in conformity with guidance under the applicable accounting rules for business combinations, using the purchase method of accounting for business combinations. The amount remaining after allocation of the reorganization value to the fair value of identified tangible and intangible assets will be reflected as goodwill, which is subject to periodic evaluation for impairment. In addition to fresh start accounting, our future consolidated financial statements will reflect all effects of the transactions contemplated by the Plan. Accordingly, our future consolidated statements of financial position and consolidated statements of operations will not be comparable in many respects to our consolidated statements of financial position and consolidated statements of operations for periods prior to our adoption of fresh start accounting and prior to accounting for the effects of the reorganization, including the consolidated financial statements contained herein. As a result, our financial and operating results for the year ended December 31, 2010 may not be indicative of future financial performance.

Impact on Net Operating Loss Carryforwards ("NOLs")

Our NOLs will be substantially reduced by the recognition of gains on the discharge of certain debt pursuant to the Plan. Further, our ability to utilize our NOL carryforwards will be limited by Section 382 of the Internal Revenue Code of 1986, as amended, as the debt restructuring resulted in an ownership change. In general, following an ownership change, a limitation is imposed on the amount of pre-ownership change NOL carryforwards that may be used to offset taxable income in each year following the ownership change. We plan to elect, pursuant to a special rule that is applicable to ownership changes resulting from a Chapter 11 reorganization, to calculate this annual limitation by increasing the value attributed to our stock prior to the ownership change by the amount of creditor claims surrendered or canceled during the reorganization. Specifically, the amount of the annual limitation would equal the "long-term tax-exempt rate" (published monthly by the Internal Revenue Service (the "IRS")) for the month in which the ownership change occurs, which in our cases is 4.10%, multiplied by the lesser of (i) the value of the Company's stock immediately after, rather than immediately before, the ownership change, and (ii) the value of the Company's pre-change assets. Any increase in the value attributed to our stock resulting from the ownership change effectively would increase the annual limitation on our NOLs.

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

Cutover-Related Issues

From 2007 through January 2009, we were in the process of developing and deploying new systems, processes and personnel to replace those used by Verizon to operate and support our network and back-office functions in the Maine, New Hampshire and Vermont operations we acquired from Verizon in the Merger. These services were provided by Verizon under the Transition Services Agreement, dated as of January 15, 2007, which we entered into with certain subsidiaries of Verizon in connection with the Merger, as amended (the "Transition Services Agreement"). On January 30, 2009, we began transitioning certain back-office functions from Verizon's integrated systems to newly created systems of the Company (the "Cutover"), and on February 9, 2009, we began operating our new platform of systems independently from the Verizon systems, processes and personnel.

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

By the end of 2010, we have substantially stabilized the back-office systems. We continue to work on improving our processes and systems to support revenue growth, enhance customer service and increase operational efficiency.

Restatements

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

In this Annual Report, the Company is restating its unaudited quarterly financial statements for the quarters ended March 31, 2010, June 30, 2010 and September 30, 2010 (the "2010 Restatement"). The aggregate impact of these adjustments will result in an increase to the Company's previously reported pre-tax loss for the nine month period ended September 30, 2010 of approximately $28.4 million, which is mainly attributable to a reduction to reported revenues of approximately $3.9 million, an increase to the Company's previously reported expenses of approximately $26.8 million, a decrease in other expense of approximately $3.2 million and a $0.9 million increase of expense to reorganization items. The aggregate impact of the adjustments for the nine months ended September 30, 2010 will result in a reduction in net income of $28.4 million, net of taxes, and a decrease in the Company's reported capital expenditures of approximately $15.4 million. See note 17 to the consolidated financial statements for further detail.

Our Business

We are a leading provider of communications services in rural and small urban communities, offering an array of services, including high speed data ("HSD"), Internet access, voice, television and broadband product offerings. We operate in 18 states with approximately 1.4 million access line equivalents (including voice access lines and HSD lines, which include digital subscriber lines ("DSL"), wireless broadband, cable modem and fiber-to-the-premises) in service as of December 31, 2010.

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

Voice access lines are an important element of our business. Over the past several years, communications companies, including FairPoint, have experienced a decline in voice access lines due to increased competition, including competition from wireless carriers and cable television operators, increased availability of broadband services and challenging economic conditions. While voice access lines are expected to continue to decline, we expect to offset a portion of this lost revenue with growth in HSD revenue as we continue to build-out our network to provide HSD products to customers who did not previously have access to such products and to offer more competitive services to existing customers. In addition, due to the Cutover issues and the Chapter 11 Cases, we have lost significant market share in recent years. Our strategy will be to focus on leveraging our ubiquitous network in our Northern New England operations to regain market share, particularly in the business and wholesale markets and for data services.

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

Legacy FairPoint's operations and our Northern New England operations operate under different regulatory regimes in certain respects. For example, concerning interstate access, all of the pre-Merger regulated interstate services of FairPoint were regulated under a rate-of-return model, while all of the rate-regulated interstate services provided by the Verizon Northern New England business were regulated under a price cap model. See "Part 1 — Item 1. Business — Regulatory Environment" for further information regarding rate-of-return and price cap models. On May 10, 2010, we received FCC approval to convert our Legacy FairPoint operations in Maine and Vermont to the price cap model. Our Legacy FairPoint operations in Maine and Vermont converted to price cap regulation on July 1, 2010. We have obtained permission to continue to operate our existing Legacy FairPoint incumbent local exchange carriers ("ILECs") outside of Maine and Vermont under the rate-of-return regime until the FCC completes its general review of whether to modify or eliminate the "all-or-nothing" rule. Without this permission, the all-or-nothing rule would require that all of our regulated operations be operated under the price cap model for federal regulatory purposes. In addition, while all of our operations generally are subject to obligations that apply to all local exchange carriers ("LECs"), our non-rural operations are subject to additional requirements concerning interconnection, non-discriminatory network access for competitive communications providers and other matters, subject to substantial oversight by state regulatory commissions. In addition, the FCC has ruled that our Northern New England operations must comply with the regulations applicable to the Bell Operating Companies. Our rural and non-rural operations are also subject to different regimes concerning universal service.

Our Services

We offer a broad portfolio of high-quality communications services for residential and business customers in each of the markets in which we operate. We have a long history of operating in our markets and have a recognized identity within each of our service areas. Our operating companies are locally staffed, which enables us to efficiently and reliably provide an array of communications services to meet our customer needs. These include services traditionally associated with local telephone companies, as well as other services such as Internet, television and broadband enabled services. Based on our understanding of our local customers' needs, we have attempted to be proactive by offering bundled services designed to simplify the customer's purchasing and management process.

Generation of Revenue

We primarily generate revenue through: (i) the provision of our basic local telephone service to customers within our service areas; (ii) the provision of network access to interexchange carriers for origination and termination of interstate and intrastate long-distance phone calls and dedicated private line facilities; (iii) HSD services; (iv) Universal Service Fund high-cost loop and high-cost model payments; and (v) the provision of other services such as long-distance resale, other data and Internet and broadband enabled services, enhanced services, such as caller name and number identification, and billing and collection for interexchange carriers.

See "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations" in this Annual Report for more information regarding our revenue sources.

Voice Services

Local calling service enables the local customer to originate and receive an unlimited number of calls within a defined "exchange" area. Local calling services include basic local lines, private lines and switched data services. We provide local calling services to residential and business customers, generally for a fixed monthly charge and service charges for special calling features. In a rural LEC's territory, the amount that we can charge a customer for local service is determined by rate proceedings involving the appropriate state regulatory authorities.

We offer switched and dedicated long-distance services within our service areas through resale agreements with national interexchange carriers. In addition, through our wholly-owned subsidiary FairPoint Carrier Services, Inc., we offer wholesale long-distance services to communications providers that are not affiliated with us.

Network Access Charges / Intercarrier Compensation

Network access enables long-distance companies to utilize our local network to originate or terminate intrastate and interstate communications. Network access charges relate to long-distance, or toll calls, that typically involve more than one company in the provision of telephone service as well as to the termination of interexchange private line services. Since toll calls and private line services are generally billed to the customer originating the call or ordering the private line service, a mechanism is required to compensate each company providing services relating to the service. This mechanism is the access charge and we bill access charges to long-distance companies and other customers for the use of our facilities to access the customer, as described below.

Intrastate Access Charges. We generate intrastate access revenue when an intrastate long-distance call involving an interexchange carrier is originated by a customer in one of our exchanges to a customer in another exchange in the same state, or when such a call is terminated to a customer in one of our local exchanges. We also generate intrastate access revenue when an interexchange carrier orders special access to connect interexchange private line services, such as HSD services, to a customer in one of our local exchanges. The interexchange carrier pays us an intrastate access payment for either terminating or originating the communication. We bill access charges relating to such service through our carrier access billing system and receive the access payment from the interexchange carrier. Access charges for intrastate services are regulated and approved by the state regulatory authority.

Interstate Access Charges. We generate interstate access revenue when an interstate long-distance call is originated by a customer in one of our exchanges to a customer in another state, or when such a call is terminated to a customer in one of our exchanges. We also generate interstate access revenue when an interexchange carrier orders special access to connect interexchange private line services, such as HSD services, to a customer in one of our local exchanges. We bill interstate access charges in the same manner as we bill intrastate access charges; however, interstate access charges are regulated and approved by the FCC instead of the state regulatory authority.

Universal Service Fund High-Cost Loop. The Universal Service Fund supplements the amount of local service revenue received by us to ensure that basic local service rates for customers in high-cost areas are consistent with rates charged in lower cost areas. The Universal Service Fund, which is funded by monthly fees charged to interexchange carriers and LECs, makes payments to us on a monthly basis based upon our cost support for LECs whose cost of providing the local loop connections to customers is significantly greater than the national average. For our rural service areas, these payments fluctuate based upon our average cost per loop compared to the national average cost per loop. For example, if the national average cost per loop increases and our operating costs (and average cost per loop) remain constant or decrease, the payments we receive from the Universal Service Fund would decline. Conversely, if the national average cost per loop decreases and our operating costs (and average cost per loop) remain constant or increase, the payments we receive from the Universal Service Fund would increase. For our non-rural service areas, these payments are based on cost models which estimate the cost to provide services and generate universal service support payments for high-cost areas. Universal Service Fund high-cost support revenue accounted for less than 2% of our total revenue in the year ended December 31, 2010.

Data and Internet Services ("HSD")

We offer broadband Internet access via DSL technology, fiber-to-the-home technology, dedicated T-1 connections, Internet dial-up, high speed cable modem and wireless broadband. Customers can utilize this access in combination with customer owned equipment and software to establish a presence on the world wide web. In addition, we offer enhanced Internet services, which include obtaining IP addresses, basic web site design and hosting, domain name services, content feeds and web-based e-mail services. Our services include access to 24-hour, 7-day a week customer support.

Other Services

We seek to capitalize on our LECs' local presence and network infrastructure by offering enhanced services to customers, as well as billing and collection services for interexchange carriers.

Enhanced Services. Our advanced digital switch and voicemail platforms allow us to offer enhanced services such as call waiting, call forwarding and transferring, three-way calling, automatic callback, call hold, caller name and number identification, voice mail, teleconferencing, video conferencing, store-and-forward fax, follow-me numbers, Centrex services and direct inward dial.

Billing and Collection. Many interexchange carriers provide long-distance services to our LEC customers and may elect to use our billing and collection services. Our LECs charge interexchange carriers a billing and collection fee for each call record generated by the interexchange carrier's customer.

Directory Services. Through our local telephone companies, we publish telephone directories in the majority of our locations. These directories provide white page listings, yellow page listings and community information listings. We contract with leading industry providers to assist in the sale of advertising and the compilation of information, as well as the production, publication and distribution of these directories.

Cable TV and Video. In certain of our markets, we offer video services to our customers by reselling DirectTV content and providing cable and IP television video-over-DSL.

Our Markets

Most of our 33 local exchange carriers operate as the ILEC in each of their respective markets. Approximately 63% of our voice access lines served residential customers as of December 31, 2010. Our business customers accounted for approximately 29% of our voice access lines as of December 31, 2010 and wholesale customers accounted for approximately 8% of our voice access lines as of December 31, 2010.

In addition to voice access lines, we offer HSD service to our customers. At December 31, 2010, we had 289,745 HSD subscribers. We include HSD subscribers in our calculation of access line equivalents (including voice access lines and HSD lines, which include DSL, wireless broadband, cable modem and fiber-to-the-premises).

Our operations are primarily focused on rural and small urban markets and are geographically concentrated in the northeastern United States.

The following chart identifies the number of access line equivalents in each of our 18 states as of December 31, 2010:

State	Access Line Equivalents
Maine	507,118
New Hampshire	414,768
Vermont	284,469
Florida	50,343
New York	46,886
Washington	42,893
Missouri	13,823
Ohio	12,703
Virginia	8,520
Kansas	6,620
Illinois	6,142
Idaho	6,051
Pennsylvania	5,946
Oklahoma	4,190
Colorado	3,744
Other States(1)	3,074
Total:	1,417,290

(1) Includes Massachusetts, Georgia and Alabama.

Sales and Marketing

We have a customer-oriented marketing approach that emphasizes our advanced reliable service. We have approximately 4,000 employees that work and live in the markets in which we provide service, and our IP/Multiple Protocol Label Switched ("IP/MPLS") network that is fully fiber optic based (the "Next Generation Network", branded the "VantagePoint" network) in NNE has a level of coverage and capacity that we believe is unmatched in our marketplace. Each of our local exchange companies has a long history in the communities it serves. It is our policy to maintain and enhance the strong identity and reputation that each LEC enjoys in its markets, as we believe this is a significant competitive advantage. As we market new services, we will seek to continue to utilize our identity in order to attain higher recognition with potential customers. We have divided our efforts into four distinct markets: Residential, Small and Medium Business, Large Business/Government/Education and Wholesale. Marketing plans, distribution strategies, opportunities and tactics are tailored to each of these markets.

Our sales organization utilizes customer service representatives to service our residential customers. This includes all the sales activities driven by our Residential marketing programs. Our other markets are handled by professional direct sales teams emphasizing account management and high touch customer service. All of our Small and Medium Business, Large Business/Government/Education and Wholesale customers have an assigned salesperson and in the case of our larger customers, a complete account team.

Information Technology and Support Systems

We have a customer-focused approach to information technology ("IT") which allows for efficient business operations and supports revenue growth. Our approach is to simplify and standardize processes in order to optimize the benefits of our back-office and operation support systems. Specifically, our "simplify and optimize" initiative targets the reduction of redundant and manual processes to reduce cycle times, improve efficiency and deliver enhanced customer service.

Our back-office and operations support systems are a combination of integrated off-the-shelf packages that have been customized to support our operations as well as fully outsourced third party solutions. Our Northern New England carrier access billing and our Telecom Group operations are supported by fully outsourced third-party platforms. All other back-office and operations support systems, including billing platforms, are maintained internally.

Our systems are supported by a combination of employees and contractors. Our internal IT group supports data center operations, data network operations, systems analysis and custom software development. We use professional services firms for the majority of software maintenance and enhancements. In the future, we expect to increase our IT staff to transition certain analysis, design and testing functions from third parties to our own internal organization.

Network Architecture and Technology

Rapid and significant changes in technology are underway in the communications industry. Our success depends, in part, on our ability to anticipate and adapt to technological changes. With this in mind, we are in the process of building and expanding our advanced Next Generation Network in our Northern New England operations. The Next Generation Network is an IP/MPLS network that is fully fiber optic based. We believe this network architecture will enable us to efficiently respond to these technological changes.

Our LEC network consists of 95 host central offices and 417 remote central offices, all with advanced digital switches. 99.5% of our central offices are served by fiber optic facilities which we own. The primary interconnection with other incumbent carriers is also fiber optic. Our outside plant consists of both fiber optic and copper distribution networks.

Our fiber optic transport system is a combination of Synchronous Optical Network (“SONET”), Dense Wave Division Multiplexing (“DWDM”), and Ethernet transport capable of satisfying customer demand for high bandwidth transport services. This system supports advanced services including Carrier Ethernet Services (“CES”) and legacy data products such as Frame Relay and Asynchronous Transfer Mode (“ATM”), facilitating delivery of advanced services as demand warrants.

In our LEC markets, DSL-enabled access technology has been deployed to provide significant broadband capacity to our customers. As of December 31, 2010, nearly all of our central offices are capable of providing broadband services through DSL technology, cable modem and wireless broadband.

Competition

We face intense competition from a variety of sources for our voice and Internet services in most of the areas we now serve, and expect that such competition will continue to intensify in the future. Regulations and technology 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 particular, the 1996 Act and other actions taken by the FCC and state regulatory authorities have promoted competition in the provision of communications services. In addition, many of our competitors have access to a larger workforce and have substantially greater name-brand recognition and financial, technological and other resources than we do. Although many of the competitive challenges now confronting larger regulated telephone companies are limited in the rural areas we serve, these challenges are more prevalent in the small urban areas we serve. Sources of competition include, but are not limited to, the following:

Wireless Competitors

In most of our service areas, we face competition from wireless carriers for voice services. As technology and economies of scale improve, competition from wireless carriers is expected to continue to increase. In addition, the FCC’s requirement that telephone companies offer wireline-to-wireless number portability has increased the competition we face from wireless carriers. Our Northern New England operations service areas represent both rural and small urban markets and tend to have better wireless coverage compared to Legacy FairPoint’s predominantly rural service areas. Wireless competition is more robust in these NNE service areas. However, if and to the extent wireless service improves in the areas we serve, and specifically in the Legacy FairPoint service areas, we expect to face further competition from wireless providers.

Wireline and Cable Competitors

We also face competition from wireline and cable competitors, such as competitive local exchange carriers (“CLECs”) and cable television providers. CLECs either maintain their own facilities or lease services at wholesale rates.

CLECs not only provide competition for our voice services, but most also provide Internet services at competitive speeds and prices. In addition, CLECs are capable of offering video services in competition with us and we expect that they will increasingly do so in the future.

Cable television companies have aggressively entered the communications market by upgrading their networks with fiber optics and installing facilities to provide voice, video and Internet services to residential and business customers. Cable high-speed Internet services are generally competitive with our Internet services in both pricing and the speed of such services. We estimate that as of December 31, 2010, most of the customers that we serve had access to voice and Internet services through a cable television company.

The FCC's requirement that telephone companies offer wireline-to-wireline number portability has increased the competition we face from both CLECs and cable television providers. In addition, CLECs and cable television companies have the ability to bundle voice, high-speed Internet and video services to their customers, which has and will likely continue to intensify the competition we face from these providers.

Electric utilities could also become a competitive threat to voice and high-speed Internet services, since they have existing assets and access to low cost capital that could allow them to enter a service area rapidly and accelerate network development.

Other Competitors

VoIP. VoIP service is increasingly being embraced by all industry participants. VoIP service involves the routing of voice calls over the public Internet or private IP networks through packets of data instead of transmitting the calls over the existing public switched telephone network. This routing mechanism may give VoIP service providers a cost advantage, and enable them to offer services to end users at a lower price. While current VoIP applications typically complete calls using ILEC infrastructure and networks, as VoIP services obtain acceptance and market penetration and technology advances further, a greater number of calls may be placed without utilizing the public switched telephone network. The proliferation of VoIP, particularly to the extent these calls do not utilize our LECs' networks or are accorded different regulatory treatment, may result in an erosion of our customer base and loss of voice services and network access revenues.

Internet Service Providers. In addition to wireline and cable companies, our Internet services also compete with Internet service providers. In addition to Internet access, many of these companies, such as Microsoft and Yahoo!, offer online content services consisting of access to closed, proprietary information networks.

Satellite. Satellite companies also currently offer broadband access to the Internet, primarily to remote, unserved locations, and competition from satellite companies may intensify in the future.

Strategic Alliances. Wireline, wireless, cable and utility companies have formed and may continue to form strategic alliances to offer bundled services in our service areas. Competition from these strategic alliances could increase if applications for certain broadband development funding submitted by certain of these strategic alliances under the Recovery and Reinvestment Act of 2009 (the "Recovery Act") are approved and the networks funded thereby are built.

Recipients of Government Stimulus. Municipalities, public utilities and private businesses receiving government stimulus funds may also choose to enter the high-speed Internet business.

Other. Our market is rapidly growing and providers of other emerging technologies and alternative communication services continue to enter our markets.

Employees

As of December 31, 2010, we employed a total of 4,032 employees, 2,578 of whom were covered by fourteen collective bargaining agreements. As of December 31, 2010, 113 of our employees were covered by six collective bargaining agreements that expire during the next calendar year. We believe the state of our relationship with our union and non-union employees is generally good.

Intellectual Property

We believe we own or have the right to use all of the intellectual property that is necessary for the operation of our business as we currently conduct it.

Regulatory Environment

We are subject to extensive federal, state and local regulation. At the federal level, the FCC generally exercises jurisdiction over facilities and services of common carriers, such as us, to the extent those facilities are used to provide, originate or terminate interstate or international communications. State regulatory commissions generally exercise jurisdiction over common carriers' facilities, services and rates to the extent those facilities are used to provide, originate or terminate intrastate communications. In addition, pursuant to local competition provisions of the Communications Act, as amended by the 1996 Act, state and federal regulators share responsibility for implementing and enforcing certain pro-competitive policies. In particular, state regulatory agencies exercise substantial oversight over the offerings of ILECs to competing carriers of interconnection and non-discriminatory access to certain facilities and services designated as essential for local competition.

Legacy FairPoint and our Northern New England operations operate under different regulatory regimes in certain respects. For example, concerning interstate access, all of the pre-Merger regulated interstate services of FairPoint were regulated under a rate-of-return model, while all of the rate-regulated interstate services provided by the Verizon Northern New England business were regulated under a price cap model. On May 10, 2010, we received FCC approval to convert our Legacy FairPoint operations in Maine and Vermont to the price cap model. Our Legacy FairPoint operations in Maine and Vermont converted to price cap regulation on July 1, 2010. Under price cap regulation, limits are imposed on a company's interstate rates without regard to its costs or revenue requirements. These limits are adjusted annually based on FCC-specified formulae, such as for inflation, as well as through occasional regulatory proceedings, but will generally give a company flexibility to adjust its rates within these limits. In contrast, rate-of-return regulation permits a company to set rates based upon its allowed costs and projected revenue requirement, including an authorized rate-of-return determined by the FCC. We have obtained permission to continue to operate our Legacy FairPoint ILECs outside of Maine and Vermont under the rate-of-return regime until the FCC completes its general review of whether to modify or eliminate the "all-or-nothing" rule. Without this permission, the all-or-nothing rule would require that all of our regulated operations be operated under the price cap model for federal regulatory purposes. In addition, while all of our operations generally are subject to obligations that apply to all LECs, our non-rural operations are subject to additional requirements concerning interconnection, non-discriminatory network access for competitive communications providers and other matters, subject to substantial oversight by state regulatory commissions. In addition, the FCC has ruled that our Northern New England operations must comply with the regulations applicable to the Bell Operating Companies. Our rural and non-rural operations are also subject to different regimes concerning universal service.

Federal Regulation

We are required to comply with the Communications Act which requires, among other things, that telecommunications carriers offer telecommunications services at just and reasonable rates and on terms and conditions that are not unreasonably discriminatory. The Communications Act was amended in 1996 by the addition of provisions intended to promote competition in the provision of local services, and to lead to deregulation as markets become more competitive.

On March 16, 2010, the FCC submitted the National Broadband Plan (the "NBP") to the United States Congress ("Congress"). The NBP is a plan to bring high-speed Internet services to the entire country, including remote and high-cost areas. In accordance with the NBP, the FCC has commenced several rulemakings that concern, among other things, reforming high-cost and low-income programs to promote universal service, to make those funds more efficient while promoting broadband communications in areas that otherwise would be unserved. We also expect the FCC to undertake new rulemakings addressing changes to interstate access charges and other forms of intercarrier compensation, classification of broadband providers and other obligations under federal law. We cannot predict the outcome of these proceedings or the effect that resulting decisions may have on our business.

Interstate Access Charges

Our local exchange subsidiaries receive compensation from long-distance telecommunications providers for the use of their network to originate and terminate interstate inter-exchange traffic. With respect to interstate traffic, the FCC regulates the prices we may charge for this purpose, referred to as access charges, as a combination of flat monthly charges paid by end-users, usage-sensitive charges paid by long-distance carriers, and recurring monthly charges for use of dedicated facilities paid by long-distance carriers. The amount of access charge revenue that we will receive is subject to change.

Our ILEC operations in Maine, New Hampshire and Vermont and, effective July 1, 2010, our Legacy FairPoint operations in Maine and Vermont, are subject to price cap regulation of access charges. Under price cap regulation, limits are imposed on a company's interstate rates without regard to its costs or revenue requirements. These limits are adjusted annually based on FCC-specified formulae, such as for inflation, as well as through occasional regulatory proceedings, but will generally give us flexibility to adjust our rates within these limits. In contrast, our rural operations are subject to interstate rate-of-return regulation, permitting us to set rates for those operations based upon our allowed costs and projected revenue requirement, including an authorized rate-of-return of 11.25%. In an order dated January 25, 2008, the FCC granted our request for a waiver of the "all or nothing" rule, which allows us to continue to operate under both of these regimes until the FCC completes its general review of whether to modify or eliminate the all or nothing rule, or makes other comprehensive changes to its access charge rules.

The FCC has made various reforms to the existing rate structure for access charges, which, combined with the development of competition, have generally caused the aggregate amount of switched access charges paid by long-distance carriers to decrease over time. Other reform proposals are now pending, and additional reforms were recommended in the NBP. These proposals could require ILECs to convert all rate-of-return operations to price cap, or to restructure, reduce, or eliminate access charges and recover the lost revenue through end-user charges or Universal Service Support. The FCC has also sought comment on whether access charges should apply to VoIP or other IP-based service providers. The FCC also is considering whether to restrict some of the pricing flexibility enjoyed by price cap ILECs, which includes some of our Northern New England operations. We cannot predict what changes, if any, the FCC may eventually adopt and the effect that any of these changes may have on our business.

Universal Service Support

Current FCC rules provide different methodologies for the determination of universal service payments to rural and non-rural carriers. In general, the rules provide high-cost support to rural carriers where the company's actual costs exceed a nationwide benchmark level. High-cost support for non-rural carriers, on the other hand, is determined by a nationwide cost proxy model. Under the current FCC rules, our non-rural operations receive support under the non-rural model methodology in Maine and Vermont. The FCC's current rules for support to high-cost areas served by non-rural LECs were remanded by the U.S. Court of Appeals for the Tenth Circuit, which had found that the FCC had not adequately justified these rules. In 2010, in response to the Tenth Circuit remand, the FCC issued an order which justified its prior conclusion. The FCC is also considering proposals to update the proxy model upon which non-rural high-cost funding is determined, as well as other possible reforms to the high-cost support mechanisms for rural and non-rural carriers, including redirecting the fund over time to support broadband communications in areas that otherwise would be unserved.

The high-cost support payments that are received from the Universal Service Fund are intended to support our operations in rural and high cost markets. Under current FCC regulations, the total Universal Service Fund support available for high-cost loops operated by rural carriers is subject to a cap. The FCC prescribes the "national average cost per loop" each year to keep the total available funding within the cap. Payments from the Universal Service Fund will fluctuate based upon our average cost per loop compared with the national average cost per loop. For example, if the national average cost per loop increases and our operating costs and average cost per loop remain constant or decrease, the payments we will receive from the Universal Service Fund will decline. Based on historical trends, we believe the total high-cost support payments from the Universal Service Fund to our rural operations likely will continue to decline. Universal Service Support high-cost support revenue accounted for less than 2% of our total revenue in the year ended December 31, 2010.

Universal Service Fund disbursements may be distributed only to carriers that are designated as "eligible telecommunications carriers" ("ETCs") by a state regulatory commission. All of our non-rural and rural LECs are designated as ETCs.

On May 1, 2008, the FCC adopted an interim emergency cap on the amount of high-cost support that competitive ETCs may receive, pending the FCC's adoption of comprehensive reform. Such support for each state was capped at the level of support that competitive ETCs were eligible to receive during March 2008 on an annualized basis. The cap became effective on August 1, 2008 and is expected to constrain growth in the total amount of high-cost support available to competitive ETCs. The FCC is currently considering other revisions to the distribution mechanisms for Universal Service Fund high-cost support. The proposals under consideration include using "reverse auctions" to determine recipients of rural high-cost support, using a model to determine the appropriate level of support in all areas where there is no private sector business case for providing voice and broadband services and accelerating targeted funding toward broadband deployment in unserved areas. The FCC is also seeking comment on near-term proposals to reduce current high-cost fund payments. These and other proposed rule changes could reduce our support in the future, reduce the support available to our competitors or provide for new support, such as for broadband services. We cannot predict what course the FCC will take on universal service distribution reform, but it is possible that the remedy selected by the FCC could materially affect the amount of universal service funding we will receive. If our rural LECs were unable to receive Universal Service Fund payments, or if those payments were reduced, many of our rural LECs would be unable to operate as profitably as they have historically in the absence of the implementation of increases in charges for other services. Moreover, if we raise prices for services to offset loss of Universal Service Fund payments, the increased pricing of our services may disadvantage us competitively in the marketplace, resulting in additional potential revenue loss.

We receive additional support under the FCC's rules in the forms of Interstate Access Support ("IAS") and Interstate Common Line Support ("ICLS"). We receive IAS support in all three of our federal price cap study areas (Maine, New Hampshire and Vermont). We also continue to receive ICLS support in our rate-of-return study areas. These forms of support replace revenues previously collected through interstate access charges. The FCC is seeking comment on a proposal to eliminate IAS and transfer the funding to a "Connect America Fund" for broadband (see below). We have no assurance that either of these support programs will remain unchanged if the FCC revises its rules governing universal service and intercarrier compensation.

We also benefit indirectly from support to low-income users under the Lifeline and Linkup universal service programs. The FCC has asked the Federal-State Joint Board for Universal Service to recommend changes to these low-income programs to address, among other things, access to broadband and eligibility for support. We have no assurance whether we or our competitors will be affected by any such changes.

On February 9, 2011, the FCC released a Notice of Proposed Rulemaking and Further Notice of Proposed Rulemaking In the Matters of Connect America Fund, A National Broadband Plan for our Future, Establishing Just and Reasonable Rates for Local Exchange Carriers, High-cost Universal Service Support, Developing a Unified Intercarrier Compensation Regime, Federal-State Board on Universal Service, and Lifeline and Linkup ("NPRM on ICC/USF"). This NPRM on ICC/USF proposes significant changes to all intercarrier compensation and USF funding for local exchange carriers, such as us. In general, the NPRM on ICC/USF proposes to retarget existing USF funding to a new program called Connect America Fund ("CAF"), which is designed to increase availability of broadband services to areas which are currently unserved. It proposes to reduce and/or eliminate intercarrier compensation for voice traffic, in anticipation of an all Internet Protocol ("IP") network. Intercarrier compensation includes state and interstate switched access charges and reciprocal compensation payments for traffic exchanged between LECs. The FCC proposes both short-term and long-term changes and transitions from the current regime to the new regime. It is not known what changes the FCC will adopt in this proceeding, when the changes will occur, or what impacts this will have on our business.

Universal Service Contributions

Federal universal service programs are currently funded through a surcharge on interstate and international end-user telecommunications revenues. Declining long-distance revenues, the popularity of service bundles that include local and long-distance services, and the growth in size of the fund, due primarily to increased funding to competitive ETCs, all prompted the FCC to consider alternative means for collecting this funding. As an interim step, the FCC has ordered that providers of certain VoIP services must contribute to federal universal service funding. The FCC also increased the percentage of revenues subject to federal universal service contribution obligations that wireless providers may use as their methodology for funding universal service. One alternative under consideration would be to impose surcharges on telephone numbers or network connections instead of carrier revenues. Any further change in the current assessment mechanism could result in a change in the total contribution that LECs, wireless carriers or others must make and that would be collected from customers. We cannot predict whether the FCC or Congress will require modification to any of the universal contribution rules, or the ultimate impact that any such modification might have on us or our customers.

Local Service Competition

The 1996 Act provides, in general, for the removal of barriers to market entry in order to promote competition in the provision of local telecommunications and information services. As a result, competition in our local exchange service areas will continue to increase from CLECs, wireless providers, cable companies, Internet service providers, electric companies and other providers of network services. Many of these competitors have a significant market presence and brand recognition, which could lead to more competition and a greater challenge to our future revenue growth.

Under the 1996 Act, all LECs, including both ILECs and CLECs, are required to: (i) allow others to resell their services; (ii) ensure that customers can keep their telephone numbers when changing carriers, referred to as local number portability; (iii) ensure that competitors' customers can use the same number of digits when dialing and receive nondiscriminatory access to telephone numbers, operator service, directory assistance and directory listing; (iv) ensure competitive access to telephone poles, ducts, conduits and rights of way; and (v) compensate competitors for the cost of completing calls to competitors' customers from the other carrier's customers.

In addition to these obligations, ILECs are subject to additional requirements to: (i) interconnect their facilities and equipment with any requesting telecommunications carrier at any technically feasible point; (ii) unbundle and provide nondiscriminatory access to certain network elements, referred to as unbundled network elements ("UNEs"), including some types of local loops and transport facilities, at regulated rates and on nondiscriminatory terms and conditions, to competing carriers that would be "impaired" without them; (iii) offer their retail services for resale at wholesale rates; (iv) provide reasonable notice of changes in the information necessary for transmission and routing of services over the ILEC's facilities or in the information necessary for interoperability; and (v) provide, at rates, terms and conditions that are just, reasonable and nondiscriminatory, for the physical co-location of equipment necessary for interconnection or access to UNEs at the ILEC's premises. Competitors are required to compensate the ILEC for the cost of providing these services.

Our non-rural operations are subject to all of the above requirements. In addition, our non-rural operations are subject to additional unbundling obligations that apply only to Bell Operating Companies. In contrast to the unbundling obligations that apply generally to ILECs, these Bell Operating Company-specific requirements mandate access to certain facilities (such as certain types of local loops and inter-office transport, and local circuit switching) even where other carriers would not be "impaired" without them.

Our Legacy FairPoint rural operations are exempt from the additional ILEC requirements until the applicable rural carrier receives a bona fide request for these additional services and the applicable state authority determines that the request is not unduly economically burdensome, is technically feasible and is consistent with the universal service objectives set forth in the 1996 Act. This exemption will be effective for all of our existing Legacy FairPoint rural ILEC operations, except in Florida where the legislature has determined that all ILECs are required to provide the additional services as prescribed in the 1996 Act. If a request for any of these additional services is filed by a potential competitor with respect to one of our other existing rural operating territories, we will likely ask the relevant state regulatory commission to retain the exemption. If a state regulatory commission rescinds an exemption in whole or in part and does not allow us adequate compensation for the costs of providing the interconnection, our costs could increase significantly; we could face new competitors in that state; and we could suffer a significant loss of customers and incur a material adverse effect on our business, financial condition, results of operations and liquidity. In addition, we could incur additional administrative and regulatory expenses as a result of the interconnection requirements. Any of these could result in a material adverse effect on our business, financial condition, results of operations and liquidity.

Under the 1996 Act, rural LECs may request from state regulatory commissions suspension or modification of any or all of the requirements described above. A state regulatory commission may grant such a request if it determines that doing so is consistent with the public interest and is necessary to avoid a significant adverse economic impact on communications users, and where imposing the requirement would be technically infeasible or unduly economically burdensome. If a state regulatory commission denies all or a portion of a request made by one of our rural LECs, or does not allow us adequate compensation for the costs of providing interconnection, our costs could increase and our revenues could decline. In addition, with such a denial, competitors could enjoy benefits that would make their services more attractive than if they did not receive interconnection rights. With the exception of certain requests by us to modify the May 24, 2004 implementation date for local number portability in certain states, we have not encountered a need to file any requests for suspension or modification of the interconnection requirements.

Long-Distance Operations

The FCC has required that ILECs that provide interstate long-distance services originating from their local exchange service territories must do so in accordance with “non-structural separation” rules. These rules have required that our long-distance affiliates (i) maintain separate books of account, (ii) not own transmission or switching facilities jointly with the local exchange affiliate and (iii) acquire any services from their affiliated LEC at tariffed rates, terms and conditions. The Bell Operating Companies are subject to a different set of rules allowing them to offer both long-distance and local exchange services in the regions where they operate as Bell Operating Companies, subject to certain conditions with which we comply. In addition, our operations have been obligated under the FCC’s “equal access” scripting requirement to read new customers a list of all available long-distance carriers presented in random order. Not all of our competitors must comply with these requirements. Therefore, these requirements may put us at a competitive disadvantage in the interstate long-distance market. The FCC recently ruled that the Bell Operating Companies need no longer comply with these rules for their long-distance services in order to avoid classification as a dominant carrier, and that their ILEC affiliates need no longer comply with the separation rules for their long-distance services, provided that they comply with certain existing and additional safeguards, such as providing special access performance metrics, offering low-volume calling plans and making available certain monthly usage information on customers’ bills. The FCC also has ruled that the Bell Operating Companies and their ILEC affiliates are no longer required to comply with the equal access scripting requirement. However, until similar relief is granted in each state by the state PUC, FairPoint will continue to comply with the equal access scripting requirements.

Other Obligations under Federal Law

We are subject to a number of other statutory and regulatory obligations at the federal level. For example, the Communications Assistance for Law Enforcement Act (“CALEA”), requires telecommunications carriers to modify equipment, facilities and services to allow for authorized electronic surveillance based on either industry or FCC standards. Under CALEA and other federal laws, we may be required to provide law enforcement officials with call records, content or call identifying information, pursuant to an appropriate warrant or subpoena.

The FCC limits how carriers may use or disclose customer proprietary network information (“CPNI”), and specifies what carriers must do to safeguard CPNI provided to third parties. Congress has enacted, and state legislatures are considering, legislation to criminalize the unauthorized sale of call detail records and to further restrict the manner in which carriers make such information available.

In addition, if we seek in the future to acquire companies that hold FCC authorizations, in most instances we will be required to seek approval from the FCC prior to completing those acquisitions. The FCC has broad authority to condition, modify, cancel, terminate or revoke operating authority for failure to comply with applicable federal laws or rules, regulations and policies of the FCC. Fines or other penalties also may be imposed for such violations.

Broadband and Internet Regulation

The FCC has adopted a series of orders that recognize the competitive nature of certain services that utilize advanced technologies.

With respect to our local network facilities, the FCC has determined that certain unbundling requirements do not apply to certain fiber facilities such as certain types of loops and packet switches.

The FCC has ruled that dedicated broadband Internet access services offered by telephone companies (using DSL technology), cable operators, electric utilities and terrestrial wireless providers qualify as largely deregulated information services. LECs or their affiliates may offer the underlying broadband transmission services that are used as an input to dedicated broadband Internet access services through private carriage arrangements on negotiated commercial terms. The FCC order also allows rural rate-of-return carriers, including most of our Legacy FairPoint operations, the option to continue providing DSL service as a common carrier (status quo) offering. The FCC also has concluded that broadband Internet access service providers must comply with CALEA. Despite the

FCC's previous ruling that broadband Internet access is an information service, the FCC continues to evaluate this finding and is expected to issue a Notice of Proposed Rulemaking ("NPRM") that could re-regulate broadband Internet access. We can provide no assurance about the outcome of such NPRM and how it may affect our business, financial condition, results of operations, liquidity and/or the market price of our Common Stock.

In addition, a Verizon petition asking the FCC to forbear from applying common carrier regulation to certain broadband services sold primarily to larger business customers was deemed granted by operation of law on March 19, 2006 when the FCC did not deny the petition by the statutory deadline. The U.S. Court of Appeals for the District of Columbia Circuit has rejected a challenge to that outcome. The forbearance deemed granted to Verizon has been extended to our Northern New England operations by the FCC in its order approving the Merger. In October 2007, the FCC stated its intention to define more precisely the scope of forbearance obtained by Verizon, but it has not yet done so.

The FCC has imposed particular regulatory obligations on IP-based telephony. It has concluded that interconnected VoIP providers must comply with CALEA; provide enhanced 911 emergency calling capabilities; comply with certain disability access requirements; comply with the FCC's rules protecting CPNI; provide local number portability; and pay regulatory fees. Recently there have also been discussions among policymakers concerning "net neutrality," or the potential requirement for non-discriminatory treatment of traffic over broadband networks. The FCC released a statement of principles favoring customer choice of content and services available over broadband networks. It has adopted open Internet access rules applicable to all broadband Internet access providers. However, we cannot predict what impact, if any, this may have on our business, financial condition, results of operations, liquidity and/or the market price of our Common Stock. The FCC has preempted some state regulation of VoIP.

Additional rules and regulations may be extended to the Internet and to broadband Internet access. A variety of proposals are under consideration in both federal and state legislative and regulatory bodies. For example, the FCC is considering reclassifying the transport component of broadband service as a "telecommunications service." We cannot predict whether the outcome of pending or future proceedings will prove beneficial or detrimental to our competitive position.

On February 17, 2009, Congress enacted the Recovery Act which, among other programs, provides for $7.2 billion for broadband development in unserved and underserved areas of the United States. We applied for stimulus funding under the Recovery Act, but did not receive any grant funding. There have recently been several grants of stimulus funding under the Recovery Act in our Northern New England and other service areas. Any networks built with these funds in such areas will at some point provide competition for our products and services.

State Regulation

The local service rates and intrastate access charges of substantially all of our telephone subsidiaries are regulated by state regulatory commissions which typically have the power to grant and revoke franchises authorizing companies to provide communications services. In some states, our intrastate long-distance rates are also subject to state regulation. States typically regulate local service quality, billing practices and other aspects of our business as well.

Most state commissions have traditionally regulated LEC pricing through cost-based rate-of-return regulation. In recent years, however, state legislatures and regulatory commissions in most of the states in which our telephone companies operate have either reduced the regulation of LECs or have announced their intention to do so, and we expect this trend will continue. Such relief may take the form of mandatory deregulation of particular services or rates; or it may consist of optional alternative forms of regulation ("AFOR"), which may involve price caps or other flexible pricing arrangements. Some of these deregulatory measures are described in greater detail below. We believe that some AFOR plans allow us to offer new and competitive services faster than under the traditional regulatory regimes.

The following summary addresses significant regulatory actions by regulatory agencies in Maine, New Hampshire and Vermont that have affected or are expected to affect our Northern New England operations:

Regulatory Conditions to the Merger, as Modified in Connection with the Plan

As required by the Plan as a condition precedent to the effectiveness of the Plan, we were required to obtain certain regulatory approvals, including approvals from the public utility commissions in Maine and New Hampshire and the Vermont Public Service Board (the "Vermont Board"). In connection with the Chapter 11 Cases, we negotiated with representatives of the state regulatory authorities in each of Maine, New Hampshire and Vermont with respect to (i) certain regulatory approvals relating to the Chapter 11 Cases and the Plan and (ii) the Merger Orders. We agreed to the Regulatory Settlements described below.

New Hampshire Regulatory Settlement

On July 7, 2010, the New Hampshire Public Utilities Commission ("NHPUC") provided its approvals for New Hampshire, including of the Regulatory Settlement for New Hampshire (the "New Hampshire Regulatory Settlement"). The New Hampshire Regulatory Settlement provides for, among other things, the following:

Service Quality Requirements:

- We will commit to meet the broadband build out and capital investment requirements and continue operating under the service quality index ("SQI") service quality program of the January 23, 2008 Settlement Agreement (the "NH 2008 Settlement") among Verizon, the Company and the staff of the NHPUC and Order No. 24,823 in Docket DT 07-011 (the "NH 2008 Order"), subject to certain modifications described in the New Hampshire Regulatory Settlement.
- SQI penalties for 2009 were deferred until December 31, 2010. If we met specified service levels on average in five performance areas over the twelve calendar months in 2010, the 2009 penalties would be waived. If we met the service levels for some but not all of these five performance areas, the penalties would be reduced by 20% for each performance area specified for which we met specified service levels on average over the 12 calendar months in 2010. As of December 31, 2010 we expect to receive a 60% penalty waiver. The amount of the waiver is subject to the review and approval of the NHPUC.

Broadband Commitments:

- We have agreed to adhere to the broadband coverage commitments prescribed in the NH 2008 Order; however, certain broadband build-out commitments with a deadline of April 1, 2010 were extended to December 31, 2010. We believe that we have fulfilled this broadband coverage commitment as of December 31, 2010, although we are in the process of confirming such compliance.
- We confirmed our commitment to spend a total of at least $56.4 million on our New Hampshire broadband build-out by March 31, 2015 and we have spent $51.7 million as of December 31, 2010.
- We have the option to resell terrestrial (non-satellite) based service providers' broadband service offerings in order to fulfill our broadband build out and/or service requirements with respect to the last eight percent (8%) of our broadband availability requirements as contained within the NH 2008 Settlement, provided that the services meet or exceed all requirements of the NH 2008 Order, and the resold services are purchased through and serviced by us.
- Pricing restrictions regarding stand-alone DSL service will terminate on April 1, 2011; provided, however, that we will continue to honor the "for life" pricing that Verizon had offered to certain customers.
- The first $500,000 of any penalty amounts resulting from any failure to meet broadband commitments will be paid to the New Hampshire Telecommunications Planning and Development Fund. Any penalties above $500,000 will be invested within three years of the date of the penalty as additional expenditures for our network, subject to NHPUC approval.

Expenditure Commitments:

- We reconfirmed our commitment to spend $285.4 million in capital expenditures through March 31, 2013, of which $211.7 million has been spent through December 31, 2010; provided, however, that the amounts expended toward the $56.4 million broadband commitment described above may be applied to the $285.4 million capital expenditure commitment.
- We will reduce our $65.0 million “other expenditure” commitment by $10.0 million and reallocate the $10.0 million to recurring maintenance capital expenditures to be spent on or before March 31, 2013. This $10.0 million increases the $285.4 million capital expenditure commitment to $295.4 million.
- We may further reduce our $65.0 million “other expenditure” commitment by up to $10.5 million to the extent such amounts are needed and are actually expended beyond the original $56.4 million broadband commitment in order to achieve 95% broadband availability.
- We may further reduce our $65.0 million “other expenditure” commitment by $4.5 million of capital expenditures already expended in excess of amounts estimated to develop our Next Generation Network.
- We will have from April 1, 2010 to March 31, 2015 to meet whatever “other expenditure” commitment remains after the preceding reductions, which will be spent on “network enhancing activities.”

Financial Commitments:

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

Management Commitments:

- Our board of directors is required to consist of a supermajority of newly appointed independent directors, and at least one member of the board of directors will reside in northern New England. We are in compliance with this obligation.
- Our board of directors is required to appoint a “regulatory sub-committee” that will monitor compliance with the terms of the NH 2008 Order, as modified by the New Hampshire Regulatory Settlement, and all other regulatory matters involving the States of Vermont, New Hampshire and Maine. We appointed a regulatory committee on the Effective Date.
- We are required to maintain a state president who will provide a senior regulatory presence in New Hampshire and is able to reasonably respond to various future Company-based NHPUC dockets or regulatory issues relating to telecommunications. We fulfilled this obligation in February of 2010.
- We agreed to seek to have a Chief Information Officer in place by June 30, 2010. We fulfilled this obligation in March of 2010.
- We have agreed that the 2010 Annual Incentive Plan and the Success Bonus will be based on a combination of EBITDAR (EBITDA plus restructuring costs) and service metrics goals and the weighting for each of these categories will be computed and clearly stated for the incentive and bonus plans for each individual and for us in total.

Other:

- We are required to reimburse the State of New Hampshire for certain costs and expenses.
- During the first two years following the Effective Date of the Plan, we are barred from paying dividends if we are in material breach of the New Hampshire Regulatory Settlement until we cure such breach.

Maine Regulatory Settlement

On July 6, 2010, the Maine Public Utilities Commission (the "MPUC") provided its approvals for Maine, including of the Regulatory Settlement for Maine (the "Maine Regulatory Settlement"). The Maine Regulatory Settlement provides for, among other things, the following:

General:

- We will comply with the MPUC's February 1, 2008 Order issued in Docket Nos. 2007-67 and 2005-155, and all stipulations approved thereby (the "ME 2008 Merger Order"), including provisions regarding broadband build-out, capital investment, the SQI program and other provisions of the ME 2008 Merger Order, subject to certain modifications described in the Maine Regulatory Settlement.

Service Quality Requirements:

- We and the MPUC agreed to submit a joint consent order to the Bankruptcy Court which provides for the implementation of the SQI rebates for the 2008-2009 SQI year, starting with bills issued in March 2010.

Broadband Commitments:

- The deadline for the initial 83% broadband build-out requirement was extended from April 1, 2010 to December 31, 2010. We believe that we have fulfilled this broadband coverage commitment as of December 31, 2010, although we are in the process of confirming such compliance. An additional interim requirement of 85% is established with a July 31, 2012 deadline, and the final requirement, with a March 31, 2013 deadline, will be reduced from 90% to 87%. However, if we fail to meet any of these requirements, we shall be further required to achieve 90% by March 31, 2014. We further agreed that by March 31, 2013, we would achieve 82% for lines in UNE Zone 3. If we meet the 87% requirement by March 31, 2013, we will contribute $100,000 to the ConnectME Authority on July 1, 2013.

- In meeting our broadband build-out requirements beyond 85%, we may resell the broadband service offerings of other non-satellite providers in order to meet our build-out and/or service requirements, provided that the services meet or exceed all requirements of the ME 2008 Merger Order, the resold services are purchased through and serviced by us, and the MPUC staff approves the provider(s).

Financial Commitments:

- The financial conditions in the ME 2008 Merger Order were replaced by the terms of the Maine Regulatory Settlement, which provided that such financial conditions were satisfied or were rendered moot by the debt reductions resulting from the Plan.

Management Commitments:

- Our New Board is required to consist of a supermajority of newly appointed independent directors and at least one member of the New Board will reside in northern New England. We are in compliance with this obligation.

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

- We agreed to seek to have a Chief Information Officer in place by June 30, 2010. We fulfilled this obligation in March of 2010.

- We have agreed that the 2010 Annual Incentive Plan and the Success Bonus will be based on a combination of EBITDAR (EBITDA plus restructuring costs) and service metrics and the weighting for each of these categories will be computed and clearly stated for the incentive and bonus plans for each individual and for us in total, and that we will disclose such metrics to the MPUC and the Office of the Public Advocate of the State of Maine (the "Maine Public Advocate").

Other:

- We are required to reimburse the MPUC and Maine Public Advocate for certain costs and expenses.

Vermont Regulatory Settlement

On December 23, 2010, the Vermont Board provided its approvals in Vermont, including of the Regulatory Settlement for Vermont (the "Vermont Regulatory Settlement"). The Vermont Regulatory Settlement provides for, among other things, the following:

Service Quality Requirements:

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

- SQI penalties for 2008 and 2009 were deferred until December 31, 2010. If we met specified service levels on average in ten performance areas over the twelve calendar months in 2010, the 2008 and 2009 penalties would be waived. If we met the service levels for some but not all of these ten performance areas, the penalties would be reduced by 10% for each performance area specified for which we met specified service levels on average over the 12 calendar months in 2010. As of December 31, 2010 we expect to receive at least an 80% penalty waiver. The amount of the waiver is subject to the review and approval of the Vermont Board.

Broadband Commitments:

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

- We also will request that the Vermont Board authorize us to use high-cost USF funds for three consecutive years to upgrade local loop plant and infrastructure in order to improve our service quality and network reliability. If the Vermont Board authorizes us to use the high-cost USF funds, and to the extent permitted by FCC rules, we may invest the high-cost USF funds in network infrastructure that will support the deployment of broadband services to an additional 5% of access lines on a timeline that varies depending on the date of the Vermont Board's authorization.

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

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

Capital Investment Commitments:

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

Financial Commitments:

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

Management Commitments:

- Our New Board is required to consist of a supermajority of newly appointed independent directors and at least one member of the New Board will reside in northern New England. We are in compliance with this obligation.
- The New Board is required to appoint a “regulatory sub-committee” that will monitor compliance with the terms of the VT 2008 Order, as modified by the Vermont Regulatory Settlement, and all other regulatory matters involving the States of Vermont, New Hampshire and Maine. We appointed a regulatory committee on the Effective Date.
- We are required to maintain a state president who will provide a senior regulatory presence in Vermont and be able to reasonably respond to various future Company-based dockets or regulatory issues relating to telecommunications. We fulfilled this obligation in January of 2010.
- We agreed to seek to have a Chief Information Officer in place by June 30, 2010. We fulfilled this obligation in March of 2010.
- We have agreed that the 2010 Annual Incentive Plan and the Success Bonus will be based on a combination of EBITDAR (EBITDA plus restructuring costs) and service metrics goals and the weighting for each of these categories will be computed and clearly stated for the incentive and bonus plans for each individual and for us in total.

Other:

- We are required to reimburse the State of Vermont for certain costs and expenses.
- During the first two years following the Effective Date of the Plan, we are barred from paying dividends if we are in material breach of the Vermont Regulatory Settlement until we cure such breach.

Other Regulatory Matters

Maine — Retail Regulation

Our Northern New England operations in Maine currently operate under an AFOR implemented upon consummation of the Merger. The AFOR provides for the capping of rates for basic local exchange services and allows pricing flexibility for other services, including intrastate long-distance, optional services and bundled packages. Under the terms of the ME 2008 Merger Order, among other things, we reduced the caps on monthly basic exchange rates effective as of August 1, 2008 by an amount designed to decrease revenues by approximately $1.5 million per month (depending on the applicable number of access lines). The current AFOR caps basic exchange rates in Maine at the new level for five years after August 1, 2008. The AFOR also includes an SQI requirement for our Northern New England operations in Maine, which establishes benchmarks for certain performance categories and imposes penalties for the failure to meet the benchmarks. Our Legacy FairPoint operations in Maine and Vermont converted to price cap regulation on July 1, 2010. All telephone companies in Maine are required to establish intrastate access rates which do not exceed their interstate access rates as they existed on January 1, 2003. Certain intrastate wholesale services are also subject to tariff requirements of the MPUC. In addition to the regulation of rates and service, telephone companies are generally subject to regulation by the MPUC in other areas, including transactions with affiliates, financing and reorganizations.

Maine — Unbundling of Network Elements

In orders issued in 2004 and 2005, the MPUC ruled that it had the authority under federal law to regulate compliance with certain conditions that our Northern New England operations must satisfy to sell long-distance services, and in particular to define the elements that our Northern New England operations must provide on a wholesale basis to competitive carriers under Section 271 of the Communications Act. The MPUC ruled that it had the authority to set rates for Section 271 elements and interpreted Section 271 to require our Northern New England operations to provide access to elements that the FCC had held are not required to be provided as UNEs under Section 251 of the Communications Act. Prior to the Merger, Verizon New England challenged the ruling in the U.S. District Court of Maine. Following an unfavorable ruling, Verizon New England appealed to the First Circuit Court of Appeals. The First Circuit vacated the District Court's decision and held that the MPUC has no such authority. The court remanded the matter for further proceedings by the District Court, which subsequently dismissed the case at our and the MPUC's request. On November 25, 2009, the MPUC petitioned the FCC for a declaratory ruling requiring us to provide certain UNEs, which is now pending.

New Hampshire

Our ILEC business operations in New Hampshire are subject to rate-of-return regulation. We have adopted the contractual and tariffed rates and terms and conditions that were in effect for the Verizon Northern New England business prior to the Merger. No rate proceeding is pending. Within this regulatory structure, the NHPUC has instituted rules and policies to expedite offerings of new services, but we are subject to regulations, such as tariff filing and cost allocation requirements, that are not applicable to our competitors. In addition to our access tariff, we maintain two New Hampshire wholesale tariffs, one for interconnection, co-location and UNEs and another for services offered to carriers for resale. The order of the NHPUC approving the spin-off and the Merger includes conditions generally limiting rates for existing retail, wholesale and DSL services during the three years following the closing of the Merger to those in effect as of the close date of the Merger.

In a case similar to that of the MPUC described under "— Maine — Unbundling of Network Elements," the NHPUC had entered orders asserting authority under federal law to require the Verizon Northern New England business to continue offering certain network elements no longer required to be offered pursuant to Section 251 of the 1996 Act, and at existing total element long run incremental cost rates, until the NHPUC decided otherwise. The Verizon Northern New England business challenged the orders in the United States District Court for the District of New Hampshire and obtained an order enjoining the NHPUC from enforcing the orders. The recent First Circuit decision that considered the MPUC order also considered this New Hampshire decision and affirmed the District Court's opinion.

In 2008, the NHPUC issued an order determining that intra-LATA carrier common line switched access charges did not apply to certain interexchange calls where neither the calling nor the called party is served by our Northern New England operations. This decision was reversed by the New Hampshire Supreme Court on appeal. Following this decision, the NHPUC directed us to file tariff revisions to remove such charges prospectively and we objected to this requirement. The matter remains pending before the NHPUC.

Vermont

In April 2006, the Vermont Board issued a final order adopting an amended alternative regulatory plan (the "Amended Incentive Regulation Plan") for the Verizon Northern New England business to replace a plan adopted in 2000. The Amended Incentive Regulation Plan is retroactive to July 1, 2005, and runs through December 31, 2010. The Vermont Board has extended the Amended Incentive Regulation Plan through March 31, 2011 to allow the parties time to negotiate a replacement plan. Under the Amended Incentive Regulation Plan, the Verizon Northern New England business committed to make broadband capability available to 75% of its access lines in Vermont by 2008 and 80% of its access lines in Vermont by 2010 with milestones of 65% and 77% for 2007 and 2009, respectively. The Amended Incentive Regulation Plan provides pricing flexibility for all new services, and no price increases are permitted for existing services such as basic exchange service, message toll service and most vertical services. The final order also continues an SQI plan with a $10.5 million penalty cap. Other provisions of the order include lifeline credits for qualified customers that subscribe to bundled services and a requirement to separately publish and distribute white and Yellow Pages directories. The VT 2008 Order was conditioned on our being subject to the terms and conditions of the Amended Incentive Regulation Plan. As a part of our settlement with the Vermont DPS, and as ordered by the Vermont Board as a condition of approval of the Merger, we agreed to exceed the existing Amended Incentive Regulation Plan's broadband build-out milestones and agreed to a condition that requires us to reach 100% broadband availability in 50% of our exchanges in Vermont by December 31, 2010. This requirement has been adopted by the Vermont Board as a condition of approval and is in addition to the broadband expansion requirements contained in the existing Amended Incentive Regulation Plan. We have also agreed in our settlement with the Vermont DPS to implement a performance enhancement plan, which was adopted by the Vermont Board as a condition of approval (in addition to the retail service quality plan required under the Amended Incentive Regulation Plan). As noted above, some of these matters are subject to modifications as part of the Vermont Regulatory Settlement.

Local Government Authorizations

We may be required to obtain from municipal authorities permits for street opening and construction or operating franchises to install and expand facilities in certain communities. If we enter into the video markets, municipal franchises may be required for us to operate as a cable television provider. Some of these franchises may require the payment of franchise fees. We have historically obtained municipal franchises as required. In some areas, we will not need to obtain permits or franchises because the subcontractors or electric utilities with which we will have contracts already possess the requisite authorizations to construct or expand our networks. In association with the Recovery Act, there may be an increase in our requirements associated with road move requests pursuant to new funding for roads. It is not certain whether funding will be available to us for this potential obligation.

Environmental Regulations

Like all other local telephone companies, our 33 LEC subsidiaries are subject to federal, state and local laws and regulations governing the use, storage, disposal of and exposure to hazardous materials, the release of pollutants into the environment and the remediation of contamination. As an owner of property, we could be subject to environmental laws that impose liability for the entire cost of cleanup at contaminated sites, regardless of fault or the lawfulness of the activity that resulted in contamination. We believe, however, that our operations are in substantial compliance with applicable environmental laws and regulations.

Other Information

We make available on our website, www.fairpoint.com, our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and all amendments to such reports as soon as reasonably practical after we file such material with, or furnish such material to, the SEC. Our filings with the SEC are available to the public over the Internet at the SEC's website at *www.sec.gov*, or at the SEC's public reference room located at 100 F Street, N.E., Washington, DC 20549. Please call the SEC at 1-800-SEC-0330 for further information on the operation of the public reference room.

ITEM 1A. RISK FACTORS

Any of the following risks could materially adversely affect our business, consolidated financial condition, results of operations, liquidity and/or the market price of our Common Stock. The risks described below are not the only risks facing us. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial may also materially and adversely affect our business operations.

Risks Related to Our Emergence from Chapter 11 Bankruptcy Protection

Our actual financial results may vary significantly from the projections filed with the Bankruptcy Court.

In connection with the Chapter 11 Cases, we were required to prepare projected financial information to demonstrate to the Bankruptcy Court the feasibility of the Plan and our ability to continue operations upon emergence from Chapter 11 bankruptcy protection. These projections were included in the disclosure statement approved by the Bankruptcy Court in March 2010 and reflected numerous assumptions concerning anticipated future performance and anticipated market and economic conditions that were and continue to be beyond our control and that may not materialize. These projections were revised in connection with a subsequent review of our financial forecast, and as a result of this review of our financial forecast, in December 2010 we provided notice of certain changes to the forecasted financial results to the classes of creditors entitled to vote on the Plan, which notice was filed with the Bankruptcy Court.

Projections are inherently subject to uncertainties and to a wide variety of significant business, economic and competitive risks. Our actual results may vary from those contemplated by the projections for a variety of reasons. The projections have not been incorporated by reference into this report and neither these projections nor any version of the disclosure statement or the notice referred to above should be considered or relied upon in connection with any investment decision concerning our Common Stock.

Our bankruptcy proceedings, which improved our capital structure, contemplated that we would implement our strategy and business plan based upon assumptions and analyses developed by us. There is no guarantee that we will be able to achieve these objectives, which could have a material adverse effect on our business, financial condition, results of operation, liquidity and/or the market price of our Common Stock.

Our bankruptcy proceedings, which improved our capital structure, contemplated that we would refine and implement our strategy and business plan based upon assumptions and analyses developed by us in light of our experience and perception of historical trends, current conditions and expected future developments, as well as other factors that we considered appropriate under the circumstances. Whether actual future results and developments will be consistent with our expectations and assumptions depends on a number of factors, including but not limited to (i) our ability to obtain adequate liquidity and financing sources; (ii) our ability to restore customers' confidence in our viability as a continuing entity and to attract and retain sufficient customers; (iii) our ability to retain key employees; (iv) changes in consumer demand for, and acceptance of, our services; and (v) the overall strength and stability of general economic conditions and of the financial industry. The failure of any of these factors could materially adversely affect the successful execution of our strategy and business plan and the stated goals of the Plan may not be achieved, which could have a material adverse impact on our business, financial condition, results of operations, liquidity and/or the market price of our Common Stock.

Because our future consolidated financial statements will reflect fresh start accounting adjustments made upon emergence from bankruptcy, and because of the effects of the transactions that became effective pursuant to the Plan, financial information in our future financial statements will not be comparable to our financial information from prior periods, including the statements contained herein.

Upon our emergence from Chapter 11 on January 24, 2011, we adopted fresh start accounting in accordance with guidance under the applicable reorganization accounting rules, pursuant to which our reorganization value, which represents the fair value of the entity before considering liabilities and approximates the amount a willing buyer would pay for the assets of the entity immediately after the reorganization, has been allocated to the fair value of assets in conformity with guidance under the applicable accounting rules for business combinations, using the purchase method of accounting for business combinations. The amount remaining after allocation of the reorganization value to the fair value of identified tangible and intangible assets will be reflected as goodwill, which is subject to periodic evaluation for impairment. In addition to fresh start accounting, our future consolidated financial statements will reflect all effects of the transactions contemplated by the Plan; therefore our future consolidated statements of financial position and consolidated statements of operations will not be comparable in many respects to our consolidated statements of financial position and consolidated statements of operations for periods prior to our adoption of fresh start accounting and prior to accounting for the effects of the reorganization, including the financial statements contained herein. As a result, our financial and operating results for the year ended December 31, 2010 may not be indicative of future financial performance.

In addition, as the Chapter 11 Cases remain open, our consolidated balance sheet upon our emergence from Chapter 11 will include accruals for unresolved claims related to the Chapter 11 Cases. These accruals are based on management's best estimate of future settlements of such unresolved claims and are subject to adjustment subsequent to the Effective Date. To the extent that our negotiations result in favorable or unfavorable settlements in relation to the amount accrued, we will recognize gains and/or losses in our consolidated statement of operations subsequent to the Effective Date.

Risks Related to our Common Stock and Our Substantial Indebtedness

The price of our Common Stock may be volatile and may fluctuate substantially, which could negatively affect holders of our Common Stock.

Shares of our Common Stock were listed on the Nasdaq Capital Market effective as of January 25, 2011. There has been a public market for our Common Stock for only a short period of time. An active, liquid and orderly market for our Common Stock may not be sustained, which could depress the market price of our Common Stock. An inactive market may also impair our ability to raise capital.

In addition, the market price of our Common Stock may fluctuate widely as a result of various factors, period-to-period fluctuations in our operating results, the volume of sales of our Common Stock, dilution, developments in the communications industry, the failure of securities analysts to cover our 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 general. 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 our 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, which could have a material adverse impact on our business, financial condition, results of operations, liquidity and/or the market price of our Common Stock.

Concentration of ownership among stockholders may prevent new investors from influencing significant corporate decisions.

Based on Schedules 13D and 13G filed by the respective holders, as of March 25, 2011, entities advised by Angelo, Gordon & Co., L.P. ("Angelo Gordon") hold approximately 17.7% of our outstanding Common Stock, funds managed by Marathon Asset Management, L.P. hold approximately 10.9% of our Common Stock and funds managed by Chatham Asset Management, LLC hold approximately 5.6% of our Common Stock (assuming exercise of all warrants to purchase Common Stock held by those funds). As a result, these stockholders may be able to exercise significant control over all matters requiring stockholder approval, including the election of directors, amendment of our certificate of incorporation and approval of corporate transactions and could gain significant control over our management and policies.

Future sales or the possibility of future sales of a substantial amount of our Common Stock may depress the price of our Common Stock.

Future sales, or the availability for sale in the public market, of substantial amounts of our Common Stock could adversely affect the prevailing market price of our Common Stock, and could impair our ability to raise capital through future sales of equity securities. The market price of our Common Stock could decline as a result of sales of a large number of shares of our Common Stock in the market 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 us to obtain additional capital by selling equity securities in the future at a time and at a price that we deem appropriate.

As of March 25, 2011, we had 26,197,432 shares of Common Stock outstanding. All such shares are freely tradable except for any shares of our Common Stock that may be held or acquired by our directors, executive officers and other affiliates, as that term is defined in the Securities Act, which will be restricted securities under the Securities Act. Restricted securities may not be sold in the public market unless the sale is registered under the Securities Act or an exemption from registration is available. In addition, Angelo Gordon has certain registration rights with respect to the Common Stock it holds or may acquire in the future.

We may issue shares of our Common Stock, or other securities, from time to time as consideration for future acquisitions and investments. In the event any such acquisition or investment is significant, the number of shares of our Common Stock, or the number or aggregate principal amount, as the case may be, of other securities that we may issue may in turn be significant. We may also grant registration rights covering these shares or other securities in connection with any such acquisitions and investments.

We do not expect to pay any cash dividends for the foreseeable future.

On March 4, 2009, our board of directors voted to suspend our quarterly dividend. We do not anticipate that we will pay any cash dividends on shares of our Common Stock for the foreseeable future. Because we are a holding company, our ability to pay dividends depends on our receipt of cash dividends from our operating subsidiaries. Any determination to pay dividends in the future will be at the discretion of our board of directors and will depend upon limitations imposed by orders of state regulatory authorities, results of operations, financial condition, contractual restrictions contained in the agreements governing our Exit Credit Agreement or indebtedness we may incur in the future, restrictions imposed by applicable law and other factors our board of directors may then deem relevant.

Although we successfully consummated the Plan, we have substantial indebtedness which could have a negative impact on our financing options and liquidity position.

As of the Effective Date, we had approximately $1,000.0 million of total debt outstanding. In addition, as of the Effective Date, we had approximately $56.3 million, net of outstanding letters of credit, available for additional borrowing under our Exit Revolving Loan.

Our overall indebtedness and the terms of our Exit Credit Agreement could:

- require us to dedicate a significant portion of our cash flow from operations to paying the principal of and interest on our indebtedness, thereby limiting the availability of our cash flow to fund future capital expenditures, working capital and other corporate purposes;
- limit our ability to obtain additional financing in the future for working capital, capital expenditures or acquisitions;
- limit our ability to refinance our indebtedness on terms acceptable to us or at all;
- restrict us from making strategic acquisitions or cause us to make non-strategic divestitures;
- limit our flexibility in planning for, or reacting to, changes in our business and the communications industry generally;
- place us at a competitive disadvantage compared with competitors that have a less significant debt burden; and
- make us more vulnerable to economic downturns and limit our ability to withstand competitive pressures.

Our ability to continue to fund our debt requirements and to reduce debt may be affected by general economic, financial market, competitive, legislative and regulatory factors, among other things. An inability to fund our debt requirements, reduce debt or satisfy debt covenant requirements could have a material adverse effect on our business, financial condition, results of operations, liquidity and/or the market price of our Common Stock.

In addition, all of our indebtedness bears interest at variable rates. If market interest rates increase, variable rate debt will create higher debt service requirements, which could adversely affect our cash flow. In addition, interest payments on the Exit Term Loan in our Exit Credit Agreement are subject to a LIBOR floor of 2.00%. While LIBOR remains below 2.00% we will incur interest costs above market rates. While we may enter into agreements limiting our exposure to higher interest rates, these agreements may not offer complete protection from this risk.

We are a holding company and rely on dividends, interest and other payments, advances and transfers of funds from our operating subsidiaries and investments to meet our debt service and other obligations and to pay dividends, if any, on our Common Stock.

We are a holding company and conduct no operations. Accordingly, our cash flow and our ability to make payments on, or repay or refinance, our indebtedness and to fund planned capital expenditures and other cash needs will depend largely upon the cash flows of our operating subsidiaries and the payment of funds by those subsidiaries to us in the form of repayment of loans, dividends, management fees or otherwise. Distributions to us from our subsidiaries will depend on their respective operating results and will be subject to restrictions under, among other things,

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

Our subsidiaries have no obligation, contingent or otherwise, to make funds available, whether in the form of loans, dividends or other distributions to us. Any inability to receive distributions from our subsidiaries could have a material adverse impact on our business, financial condition, results of operations, liquidity and/or the market price of our Common Stock.

To operate and expand our business, service our indebtedness and meet our other cash needs, we will require a significant amount of cash, which may not be available to us. We may not generate sufficient funds from operations to repay or refinance our indebtedness at maturity or otherwise or to fund our operations.

Our ability to make payments on, or repay or refinance, our indebtedness, and to fund planned capital expenditures, unanticipated capital expenditures and other cash needs will depend largely upon our future operating performance, including our ability to execute on our business plan. Our future operating performance, to a certain extent, is subject to general economic, financial, competitive, legislative, regulatory and other factors that are beyond our control. In addition, our ability to borrow funds in the future to make payments on our indebtedness will depend on the satisfaction of the covenants in the agreements governing our indebtedness. Specifically, we will need to maintain specified financial ratios and satisfy financial condition tests. In addition, the limitations imposed by any financing arrangements on our ability to incur additional debt and to take other actions might significantly impair our ability to obtain other financing.

In addition, we can provide no assurance that we would be able to refinance any of our indebtedness on commercially reasonable terms, or at all. If we are unable to make payments or refinance our debt or obtain new financing under these circumstances, we would have to consider other options, including:

- sales of assets;
- reduction or delay of capital expenditures, strategic acquisitions, investments and alliances; or
- negotiations with our lenders to restructure the applicable debt.

The agreements governing our indebtedness may restrict, or market or business conditions may limit, our ability to take some of these actions or the effectiveness of these actions.

An inability to generate sufficient funds from operations to repay or refinance our indebtedness at maturity or otherwise fund our operations could have a material adverse impact on our business, financial condition, results of operations, liquidity and/or the market price of our Common Stock.

Our financing arrangements subject us to various restrictions that could limit our operating flexibility, our ability to make payment on our debt and to fund dividends, if any, on our Common Stock.

The Exit Credit Agreement contains restrictions, covenants and events of default that, among other things, require us to satisfy certain financial tests and maintain certain financial ratios and restrict our ability to incur additional indebtedness and to refinance our existing indebtedness. The terms of the Exit Credit Agreement impose, and the agreements governing any future indebtedness may impose, various restrictions and covenants on us that could limit our ability to respond to market conditions, provide for capital investment needs or take advantage of business opportunities by limiting the amount of additional borrowings we may incur. These restrictions may include compliance with, or maintenance of, certain financial tests and ratios and may limit or prohibit our ability to, among other things:

- incur additional debt and issue preferred stock;
- pay dividends in the future or make other distributions on our stock or repurchase or redeem stock;
- create liens;
- redeem or prepay certain debt;
- make certain investments;
- engage in specified sales of assets;
- enter into transactions with affiliates;
- enter new lines of business;
- engage in consolidation, mergers and acquisitions; and
- make certain capital expenditures.

These restrictions on our ability to operate our business could seriously harm our business by, among other things, limiting our ability to take advantage of financing, merger and acquisition and other corporate opportunities.

Various risks, uncertainties and events beyond our control could affect our ability to comply with these covenants and maintain these financial tests and ratios. Failure to comply with any of the covenants in the Exit Credit Agreement could result in a default thereunder. In addition, the limitations imposed by any financing arrangements on our ability to incur additional debt and to take other actions might significantly impair our ability to obtain other financing. Any of these events could have a material adverse impact on our business, financial condition, results of operations, liquidity and/or the market price of our Common Stock.

Limitations on our ability to use NOL carryforwards, and other factors requiring us to pay cash to satisfy our tax liabilities in future periods, may affect our ability to repay our indebtedness.

As of the Effective Date, our NOLs have been substantially reduced by the recognition of gains on the discharge of certain debt pursuant to the Plan. In addition, our emergence from bankruptcy resulted in an ownership change for federal income tax purposes under Section 382 of the Code. This followed previous ownership changes resulting from our initial public offering in February 2005 which resulted in an "ownership change" within the meaning of the U.S. federal income tax laws addressing NOL carryforwards, alternative minimum tax credits and other similar tax attributes. Moreover, the Merger with Spinco resulted in a further ownership change for these purposes. As a result of these ownership changes, there are specific limitations on our ability to use these NOL carryforwards and other tax attributes from periods prior to the initial public offering and the Merger. Although we do not expect that these limitations will materially affect our U.S. federal and state income tax liability in the near term, it is possible in the future if we were to generate taxable income in excess of the limitation on usage of NOL carryforwards that these limitations could limit our ability to utilize the carryforwards and, therefore, result in an increase in our U.S. federal and state income tax payments over the amount we otherwise would have, had we not experienced an ownership change. In addition, in the future we will be required to pay cash to satisfy our tax liabilities when all of our NOL carryforwards have been used or have expired. Limitations on our usage of NOL carryforwards, and other factors requiring us to pay cash taxes in the future, would reduce the funds available to service our debt and pay dividends, if any, in the future, which could have a material adverse impact on our business, financial condition, results of operations, liquidity and/or the market price of our Common Stock.

Our actual operating results may differ significantly from our guidance.

From time to time, we have released and may continue to release guidance regarding our future performance that represents our management's estimates as of the date of release. This guidance, which consists of forward-looking statements, is prepared by our management and is qualified by, and subject to, the assumptions and the other information contained or referred to in the release. Our guidance is not prepared with a view toward compliance with published guidelines of the American Institute of Certified Public Accountants, and neither our independent registered public accounting firm nor any other independent expert or outside party compiles or examines the guidance and, accordingly, no such person expresses any opinion or any other form of assurance with respect thereto.

Guidance is based upon a number of assumptions and estimates that, while presented with numerical specificity, are inherently subject to significant business, economic and competitive uncertainties and contingencies, many of which are beyond our control and are based upon specific assumptions with respect to future business decisions, some of which will change. We generally state possible outcomes as high and low ranges which are intended to provide a sensitivity analysis as variables are changed but are not intended to represent our actual results which could fall outside of the suggested ranges. The principal reason that we release this data is to provide a basis for our management to discuss our business outlook with analysts and investors. Notwithstanding this, we do not accept any responsibility for any projections or reports published by any such outside analysts or investors.

Guidance is necessarily speculative in nature, and it can be expected that some or all of the assumptions or the guidance furnished by us will not materialize or will vary significantly from actual results. Accordingly, our guidance is only an estimate of what management believes is realizable as of the date of release. Actual results will vary from the guidance and the variations may be material. Investors should also recognize that the reliability of any forecasted financial data diminishes the farther in the future that the data is forecast. In light of the foregoing, investors are urged to put the guidance in context and not to place undue reliance on it.

Any failure to successfully implement our operating strategy or the occurrence of any of the events or circumstances discussed therein could result in the actual operating results being different than the guidance, and such differences may be materially adverse.

Risks Related to Our Business

We provide services to customers over access lines, and if we lose access lines, our business, financial condition, results of operations, liquidity and/or the market price of our Common Stock may be materially adversely affected.

We generate revenue primarily by delivering voice and data services over access lines. During the years ended December 31, 2010 and 2009, respectively, we experienced access line equivalent loss of 8.3% and 10.2%. These losses resulted mainly from competition, including competition from bundled offerings by cable companies, the use of alternate technologies as well as challenging economic conditions and the offering of DSL services, which prompts some customers to cancel second line service. We believe that the Chapter 11 Cases and certain issues associated with the Cutover may have had an adverse effect on our ability to retain customers.

We expect to continue to experience net access line losses. Our inability to retain access lines could adversely affect our business, financial condition, results of operations, liquidity and/or the market price of our Common Stock.

We provide access services to other communications companies, and if these companies were to find alternative means of providing services, become insolvent or experience substantial financial difficulties, our business, financial condition, results of operations, liquidity and/or the market price of our Common Stock may be materially adversely affected.

We originate and terminate calls on behalf of long-distance carriers and other interexchange carriers over our network in exchange for access charges. Interstate and intrastate access charges represented approximately 35.6% of our total revenues in 2010. Should one or more of these carriers find alternative means of providing services, loss of revenues from these carriers could have a material adverse impact on our business, financial condition, results of operations, liquidity and/or the market price of our Common Stock. In addition, should one or more of the carriers that we do business with become insolvent or experience substantial financial difficulties, our inability to timely collect access charges from them could have a material adverse impact on our business, financial condition, results of operations, liquidity and/or the market price of our Common Stock.

We are subject to competition that may materially adversely impact our business, financial condition, results of operations, liquidity and/or the market price of our Common Stock.

We face intense competition from a variety of sources for our voice and Internet services in most of the areas we now serve. Regulations and technology 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 our services areas, we face competition from wireless carriers for voice services. As technology and economies of scale improve, competition from wireless carriers is expected to increase. We also face increasing competition from wireline and cable television companies for our voice and Internet services. We estimate that as of December 31, 2010, most of the customers that we serve had access to voice and Internet services through a cable television company. Wireline and cable television companies have the ability to bundle their services, which has and is expected to continue to intensify the competition we face from these providers. VoIP providers, Internet service providers, satellite companies and electric utilities also compete with our services, and such competition is expected to continue to increase in the future. In addition, many of our competitors have access to a larger workforce and have substantially greater name-brand recognition and financial, technological and other resources than we do.

In addition, consolidation and strategic alliances within the communications industry or the development of new technologies have had and may continue to have an effect on our competitive position. We 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 our business, financial condition, results of operations, liquidity and/or the market price of our Common Stock.

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

- loss of customers (given the likelihood that when we lose customers for local service, we will also lose them for all related services);
- reduced network usage by existing customers who may use alternative providers for voice 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.

We 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 new service introductions occur frequently in the communications industry and industry standards evolve continually, including but not limited to a transition in the industry from primarily voice products to data services. We cannot predict the effect of these changes on our competitive position, profitability or industry. Technological developments may reduce the competitiveness of our 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 our services. If we fail to adapt successfully to technological changes or obsolescence or fail to obtain access to important new technologies, we could lose customers and be limited in our ability to attract new customers and sell new services to our existing customers, which could have a material adverse impact on our business, financial condition, results of operations, liquidity and/or the market price of our Common Stock.

The geographic concentration of our operations in Maine, New Hampshire and Vermont make our business susceptible to local economic and regulatory conditions and consumer trends, and an economic downturn, recession or unfavorable regulatory action in any of those states may materially adversely affect our business, financial condition, results of operations, liquidity and/or the market price of our Common Stock.

As of December 31, 2010, we operate in 18 states with approximately 1.4 million access line equivalents, of which approximately 85% are located in Maine, New Hampshire and Vermont. As a result of this geographic concentration, our financial results will depend significantly upon economic conditions and consumer trends in these markets. From January 1, 2010 through December 31, 2010, our Northern New England operations experienced a 9.5% decline in total access line equivalents in service, compared to a decline of 3.2% for Legacy FairPoint during the same period. A deterioration in economic conditions in any of these markets could result in a further decrease in demand for our services and resulting loss of access line equivalents which could have a material adverse effect on our business, financial condition, results of operations, liquidity and/or the market price of our Common Stock.

In addition, if state regulators in Maine, New Hampshire or Vermont were to take an action that is adverse to our operations in those states, we could suffer greater harm from that action by state regulators than we would from action in other states because of the concentration of our operations in those states.

We depend on third party providers for certain of our billing functions, information technology services, including network support and improvements, and for the provision of our long-distance and bandwidth services.

We have agreements with outside service providers to perform a portion of our billing functions and for our provision of long-distance and bandwidth services. We also rely on certain third parties for information technology services, including network support and improvements.

If these service providers are unable to adequately perform such services or if one of them experiences a significant degradation or failure with respect to such services, it could result in disruptions in our billing, information technology systems and/or our long-distance and bandwidth services. Furthermore, if these agreements are terminated for any reason, we may be unable to find an alternative service provider in a timely manner or on terms acceptable to us, and may be unable ourselves to perform the services they provide.

With respect to the agreements governing our long-distance and bandwidth services, these agreements are based, in part, on our estimate of future supply and demand and may contain minimum volume commitments. If we overestimate demand, we may be forced to pay for services we do not need. If we underestimate demand, we 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, we will not be able to meet this demand. In addition, if we cannot meet any minimum volume commitments, we may be subject to underutilization charges, termination charges, or rate increases.

If any of the foregoing events occurs with respect to our third party providers, our business, financial condition, results of operations, liquidity and/or the market price of our Common Stock could be materially adversely affected.

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

To be successful, we will need to continue to provide our customers reliable service over our expanded network. Some of the risks to our network and infrastructure include:

- physical damage to access lines;
- widespread power surges or outages;
- software defects in critical systems;
- disruptions beyond our control; and
- capacity limitations resulting from changes in our customers' usage patterns.

From time to time, in the ordinary course of business, we could experience short disruptions in our service due to factors such as cable damage, inclement weather and service failures of our third-party service providers. We could experience more significant disruptions in the future. In addition, certain portions of our network may lack adequate redundancy to allow for expedient recovery of service to affected customers. Disruptions may cause interruptions in service or reduced capacity for customers, either of which could cause us to lose customers and incur expenses, which could have a material adverse impact on our business, financial condition, results of operations, liquidity and/or the market price of our Common Stock.

Our success will depend on our ability to attract and retain qualified management and other personnel.

Our success depends upon the talents and efforts of our senior management team. None of our senior executives, with the exception of Paul H. Sunu, our Chief Executive Officer, are employed pursuant to an employment agreement. Mr. Sunu's current employment agreement expires on August 24, 2013. The loss of any member of our 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 our business, financial condition, results of operations, liquidity and/or the market price of our Common Stock.

A significant portion of our workforce is represented by labor unions and therefore subject to collective bargaining agreements. If disputes arise, or if we are unable to successfully renegotiate these agreements at an appropriate time, workers subject to these agreements could engage in strikes or other work stoppages or slowdowns, which could materially adversely impact our business, financial condition, results of operations, liquidity and/or the market price of our Common Stock.

As of December 31, 2010 2,578 of our 4,032 employees were covered by fourteen collective bargaining agreements. Disputes with regard to the terms of these agreements or our potential inability to negotiate acceptable contracts with these unions could result in, among other things, strikes, work stoppages or other slowdowns by the affected workers. If unionized workers were to engage in a strike, work stoppage or other slowdown, or other employees were to become unionized, we could experience a significant disruption of our operations or higher ongoing labor costs, either of which could have a material adverse effect on our business, financial condition, results of operations, liquidity and/or the market price of our Common Stock. Additionally, future renegotiation of labor agreements or provisions of labor agreements could adversely impact our service reliability and significantly increase our costs for healthcare, wages and other benefits, which could have a material adverse impact on our business, financial condition, results of operations, liquidity and/or the market price of our Common Stock.

We have identified material weaknesses in our internal controls over financial reporting which existed as of December 31, 2010. If the steps we take to remedy these material weaknesses are not successful or we otherwise fail to maintain an effective system of internal controls, such a failure could result in additional material misstatements in our financial statements, prevent us from providing timely financial statements or prevent us from meeting our reporting requirements both with the SEC and under our debt obligations, cause investors to lose confidence in our reported financial information and have a negative effect on the market price of our Common Stock.

As discussed in "Part II—Item 9A. Controls and Procedures," we concluded that the following material weaknesses in our internal controls over financial reporting existed as of December 31, 2010:

- Our information technology controls were not adequate. Specifically, our change management processes were not consistently followed to ensure all changes were appropriately authorized. In addition, access to our information systems was not appropriately restricted.
- Our management oversight and review procedures designed to monitor the accuracy of period-end accounting activities were ineffective. Specifically, our account reconciliation processes were not adequate to properly identify and resolve discrepancies between our billing system and our general ledger in a timely manner. In addition, project accounting controls were not adequate to ensure charges to capital projects were appropriate or that projects were closed in a timely manner. Furthermore, procedures for the review of our income tax provision and supporting schedules were not adequate to identify and correct errors in a timely manner.

As a result of these material weaknesses, our management concluded that our disclosure controls were not effective as of December 31, 2010. Our management has initiated steps to remediate these issues. If the remediation is not successful or we otherwise fail to maintain an effective system of internal controls, such a failure could result in material misstatements in our financial statements, prevent us from providing timely financial statements or prevent us from meeting our reporting requirements both with the SEC and under our debt obligations, cause investors to lose confidence in our reported financial information and have a negative effect on the market price of our Common Stock.

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

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

We note that we have identified material weaknesses in our internal controls over financial reporting which existed as of December 31, 2010, which material weaknesses are discussed in greater detail in "Part II—Item 9A. Controls and Procedures".

Our financial condition and results of operations could be adversely affected if assets held in our Company sponsored pension plans suffer significant losses in market value.

We sponsor pension and post-retirement healthcare plans for certain employees. During the year ended December 31, 2010, we experienced actual gains on pension plan assets totaling approximately 11.2%. Since the actuarial value of plan assets is dependent on the value of the assets held by each plan, a significant decline in the market value of such assets could have a detrimental impact on our pension plans and could result in us making additional contributions to these plans, as required under the Employee Retirement Income Security Act of 1974, as amended. Furthermore, if the third party trustee who holds these plan assets were to become insolvent, access to the plan assets could be limited, and we could be required to pay participant benefits from our assets. Such required contributions could have a material adverse impact on our business, financial condition, results of operations, liquidity and/or the market price of our Common Stock.

Risks Relating to Our Regulatory Environment

We are subject to significant regulations that could change in a manner adverse to us.

We operate in a heavily regulated industry. Laws and regulations applicable to us and our 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 us:

Risk of loss or reduction of network access charge revenues. A portion of our revenues comes from network access charges, which are paid to us by intrastate and interstate interexchange carriers for originating and terminating communications in the regions served. This also includes Universal Service Support payments for local switching support, long-term support, and ICLS. In recent years, several of these long-distance carriers have declared bankruptcy. Future declarations of bankruptcy by a carrier that utilizes our access services could negatively affect our business, financial condition, results of operations, liquidity and/or the market price of our Common Stock.

The amount of access charge revenues that we receive is based on rates set by federal and state regulatory bodies, and those rates could change in the future. Further, from time to time federal and state regulatory bodies conduct rate cases, "earnings" reviews, or make adjustments to price cap formulas that may result in rate changes. In addition, reforms of the federal and state access charge systems, combined with the development of competition, have caused the aggregate amount of access charges paid by long-distance carriers to decrease. Additional reforms have been proposed. If any of the currently proposed reforms were adopted by the FCC 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 in or loss of access charges may or may not result in offsetting increases in local, subscriber line or Universal Service Support revenues. Regulatory developments of this type could materially adversely affect our business, financial condition, results of operations, liquidity and/or the market price of our Common Stock.

Risk of loss or reduction of Universal Service Fund support. We receive federal Universal Service Support, referred to as the Universal Service Fund, and in some cases, state universal support, to support our operations in high-cost areas. These federal revenues include Universal Service Support payments for local switching support, ICLS, or IAS. High-cost support for our Northern New England operations, referred to as our non-rural operations or non-rural LECs, and for Legacy FairPoint's traditional, rural local exchange operations, referred to as our rural operations or rural LECs, is determined pursuant to different methodologies, aspects of which are now under review. The FCC has proposed changes to the Universal Service Fund. Any changes to the existing rules could reduce the Universal Service Fund revenues we receive. If we were unable to receive such support, or if that support was reduced, our Northern New England operations would be unable to operate as profitably as they have historically. Moreover, if we raise prices for services to offset these losses of Universal Service Fund payments, the increased pricing of our services may disadvantage us competitively in the marketplace, resulting in additional potential revenue loss. See discussion of FCC NPRM in "Part I— Item 1. Business — Regulatory Environment — Universal Service Support."

Further, the total payments from the Universal Service Fund to our rural operations will fluctuate based upon our rural company average cost per loop compared to the national average cost per loop and are likely to decline based on historical trends. We receive IAS in all of our price cap study areas (Maine, New Hampshire and Vermont) and ICLS in our rate-of-return study areas. The FCC also is considering changes to its rules governing who contributes to the Universal Service Support mechanisms, and on what basis. Any changes in the FCC's rules governing the distribution of such support or the manner in which entities contribute to the Universal Service Fund could have a material adverse effect on our business, financial condition, results of operations, liquidity and/or the market price of our Common Stock.

Risk of loss of statutory exemption from burdensome interconnection rules imposed on ILECs. Our rural LECs generally are exempt from the more burdensome requirements of the 1996 Act governing the rights of competitors to interconnect to ILEC 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 our rural LECs, we would be required to provide UNEs to competitors in our rural telephone company areas. As a result, more competitors could enter our traditional telephone markets than are currently expected, which could have a material adverse effect on our business, financial condition, results of operations, liquidity and/or the market price of our Common Stock.

Risks posed by costs of regulatory compliance. Regulations create significant compliance costs for us. Subsidiaries that provide intrastate services are generally subject to certification, tariff filing and other ongoing regulatory requirements by state regulators. Our interstate and intrastate access services are currently provided in accordance with tariffs filed with the FCC and state regulatory authorities, respectively. Challenges in the future to our tariffs by regulators or third parties or delays in obtaining certifications and regulatory approvals could cause us to incur substantial legal and administrative expenses, and, if successful, these challenges could adversely affect the rates that we are able to charge our customers, which could have a material adverse effect on our business, financial condition, results of operations, liquidity and/or the market price of our Common Stock.

In addition, our non-rural operations are subject to regulations not applicable to our rural operations, including but not limited to requirements relating to interconnection, the provision of UNEs, and the other market-opening obligations set forth in the 1996 Act. In approving the transfer of authorizations to us in the Merger, the FCC determined that our non-rural operations would be regulated as a Bell Operating Company following the completion of the Merger, subject to the same regulatory requirements that currently apply to the other Bell Operating Companies. The FCC also stated that we would be entitled to the same regulatory relief that Verizon New England had obtained in the region. Any changes made in connection with these obligations could increase our non-rural operations' costs or otherwise have a material adverse effect on our business, financial condition, results of operations, liquidity and/or the market price of our Common Stock. Moreover, we cannot predict the precise manner in which the FCC will apply the Bell Operating Company regulatory framework to us.

State regulators have also imposed conditions in various regulatory proceedings that could materially adversely affect our business, financial condition, results of operations, liquidity and/or the market price of our Common Stock.

Our business also may be affected by legislation and regulation imposing new or greater obligations related to open Internet access, assisting law enforcement, bolstering homeland security, minimizing environmental impacts, protecting customer privacy or addressing other issues that affect our business. We cannot predict whether or to what extent the FCC might modify its rules or what compliance with those new rules might cost. Similarly, we cannot predict whether or to what extent federal or state legislators or regulators might impose new network access, security, environmental or other obligations on our business.

Risk of losses from rate reduction. Our local exchange companies that operate pursuant to intrastate 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 our business, financial condition, results of operations, liquidity and/or the market price of our Common Stock.

For a more thorough discussion of the regulatory issues that may affect our business, see "Item 1. Business—Regulatory Environment."

ITEM 1B. UNRESOLVED STAFF COMMENTS

Not applicable.

ITEM 2. PROPERTIES

We own or lease all of the properties material to our business. Our headquarters is located in Charlotte, North Carolina, in a leased facility. We also have administrative offices, maintenance facilities, rolling stock, central office and remote switching platforms and transport and distribution network facilities in each of the 18 states in which we operate our LEC business. Our administrative and maintenance facilities are generally located in or near the communities served by our LECs and our central offices are often within the administrative building. Auxiliary battery or other non-utility power sources are at each central office to provide uninterrupted service in the event of an electrical power failure. Transport and distribution network facilities include fiber optic backbone and copper wire distribution facilities, which connect customers to remote switch locations or to the central office and to points of presence or interconnection with the long-distance carriers. These facilities are located on land pursuant to permits, easements or other agreements. Our rolling stock includes service vehicles, construction equipment and other required maintenance equipment.

We believe each of our respective properties is suitable and adequate for the business conducted thereon, is being appropriately used consistent with past practice and has sufficient capacity for the present intended purposes.

ITEM 3. LEGAL PROCEEDINGS

From time to time, we are involved in litigation and regulatory proceedings arising out of our operations. Management believes that we are not currently a party to any legal or regulatory proceedings, the adverse outcome of which, individually or in the aggregate, would have a material adverse effect on our financial position or results of operations. During fiscal year 2010, we were subject to the Chapter 11 Cases. We have emerged from Chapter 11 protection; however, these cases have not been closed. For a discussion of the Chapter 11 Cases, see "Item. 1—Business—Emergence from Chapter 11 Proceedings."

We are subject to certain service quality requirements in the states of Maine, New Hampshire and Vermont. Failure to meet these requirements in any of these states may result in penalties being assessed by the appropriate state regulatory body. As of December 31, 2010, we have recognized an estimated liability of $20.8 million for service quality penalties based on metrics defined by the PUCs in Maine and New Hampshire and the Vermont Public Service Board.

ITEM 4. (REMOVED AND RESERVED)

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

General

Our Common Stock began trading on the NASDAQ under the symbol "FRP" effective as of January 25, 2011. Prior to that time, our Old Common Stock traded (i) on the Pink Sheets under the symbol "FRCMQ" from October 26, 2009 to January 24, 2011 and (ii) on the NYSE under the symbol "FRP" from our initial public offering on February 4, 2005 until October 26, 2009, when the NYSE notified us that trading of our Old Common Stock was suspended immediately as a result of the filing of the Chapter 11 Cases. The last day that our Old Common Stock traded on the NYSE was October 23, 2009. On November 16, 2009, the NYSE completed its application to the SEC to delist our Old Common Stock.

The following table shows the high and low closing sales prices per share of our Old Common Stock as reported on the Pink Sheets from January 1, 2010 to December 31, 2010 and October 26, 2009 to December 31, 2009, and on the NYSE from January 1, 2009 to October 23, 2009. The stock price information is based on published financial sources. As a result of the Chapter 11 Cases, on the Effective Date, the Old Common Stock was cancelled. Accordingly, the prices of the Old Common Stock set forth in the table below are not indicative of the future prices of our Common Stock. The Pink Sheets quotations set forth below reflect inter-dealer prices, without retail mark-up, mark-down or commission, and may not necessarily reflect actual transactions:

Year Ended December 31, 2010	High	Low
First quarter	$ 0.07	$ 0.02
Second quarter	0.13	0.03
Third quarter	0.05	0.03
Fourth quarter	0.03	0.02

Year Ended December 31, 2009	High	Low
First quarter	$ 3.07	$ 0.36
Second quarter	1.82	0.52
Third quarter	0.92	0.41
Fourth quarter	0.44	0.03

On March 4, 2009, our board of directors voted to suspend our quarterly dividend. Accordingly, no dividends were declared on our Old Common Stock in 2010 or 2009. We currently do not anticipate that we will pay any cash dividends on shares of our Common Stock for the foreseeable future. Any determination to pay dividends in the future will be at the discretion of our board of directors and will depend upon limitations imposed by orders of state regulatory authorities, results of operations, financial condition, contractual restrictions relating to indebtedness we may incur, restrictions imposed by applicable law and other factors our board of directors may deem relevant at the time.

The following table shows the dividends which were paid on our Old Common Stock during 2009:

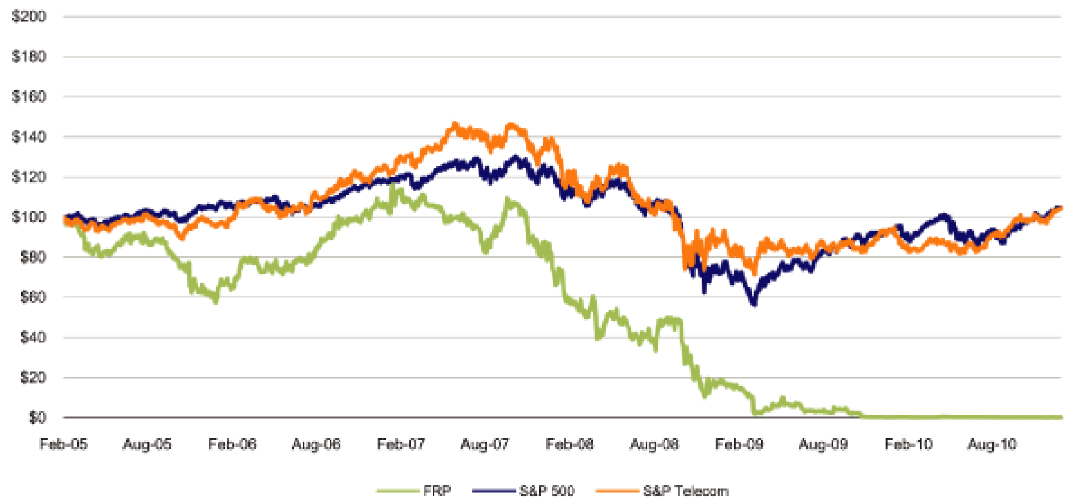
Year Ended December 31, 2008	Per Share Dividend Declared	Date Declared	Record Date	Date Paid
Fourth quarter	0.25750	December 5, 2008	December 31, 2008	January 16, 2009

As of March 25, 2011, there were approximately 175 holders of record of our Common Stock.

Performance Graph

Set forth below is a line graph comparing the yearly percentage change in the cumulative total stockholder return on shares of our common stock against (i) the cumulative total return of all companies listed on the S&P 500 and (ii) the cumulative total return of the S&P 500 Telcom sector. The period compared commences on February 4, 2005 and ends on December 31, 2010. This graph assumes that $100 was invested on February 4, 2005 (the date of the initial public offering of our Old Common Stock) in our Old Common Stock and in each of the market index and the sector index at the closing price for FairPoint Communications and the respective indices, and that all cash distributions were reinvested. As a result of the Chapter 11 Cases, on the Effective Date, the Old Common Stock was cancelled. Accordingly, the Old Common Stock price performance shown on the graph is not indicative of the future price performance of our Common Stock which was issued pursuant to the Plan.

Comparison of Cumulative Total Return Among
FairPoint Communications, S&P 500 and S&P 500 Telcom



Securities Authorized for Issuance under Equity Compensation Plans

The table below provides information, as of the end of the most recently completed fiscal year, concerning securities authorized for issuance under our equity compensation plans. On the Effective Date, in accordance with the Plan, all equity compensation plans in effect at the end of the most recently completed fiscal year were terminated and all awards thereunder were cancelled and extinguished.

Equity Compensation Plan Information (1)

Plan Category	(a) Number of securities to be issued upon exercise of outstanding options, warrants and rights(2)	(b) Weighted average exercise price of outstanding options, warrants and rights(2)	(c) Number of securities remaining available for future issuance under equity compensation plans excluding securities reflected in column (a) (3)
Equity compensation plans approved by our stockholders	433,441	$ 15.20	8,805,011
Equity compensation plans not approved by our stockholders	533,334	$ 0.95	11,466,666
Total	966,775	$ 7.34	20,271,677

(1) On the Effective Date, in accordance with the Plan, all equity compensation plans in effect at the end of the most recently completed fiscal year were terminated and all awards thereunder, including those set forth in this table, were cancelled and extinguished.

(2) Includes 47,373 options to purchase shares of our Old Common Stock under the FairPoint Communications, Inc. (formerly MJD Communications, Inc.) 1998 Stock Incentive Plan, 130,935 options to purchase shares of our Old Common Stock under the FairPoint Communications, Inc. 2000 Employee Stock Incentive Plan, 533,334 options to purchase shares of our Old Common Stock under the FairPoint Communications, Inc. 2009 CEO Compensation Plan, 79,781 restricted units granted under the FairPoint Communications, Inc. 2005 Stock Incentive Plan and 175,352 restricted units granted under the FairPoint Communications, Inc. 2008 Long Term Incentive Plan.

(3) Includes 8,980,363 shares under the FairPoint Communications, Inc. 2008 Long Term Incentive Plan and 12,000,000 shares under the FairPoint Communications, Inc. 2009 CEO Compensation Plan.

Repurchase of Equity Securities

We did not repurchase equity securities during the three months ended December 31, 2010.

Unregistered Sales of Equity Securities

We did not sell any unregistered equity securities during 2010.

ITEM 6. SELECTED FINANCIAL DATA

On March 31, 2008, Legacy FairPoint completed the acquisition of Spinco, pursuant to which Spinco merged with and into Legacy FairPoint, with Legacy FairPoint continuing as the surviving corporation for legal purposes. Spinco was a wholly-owned subsidiary of Verizon and prior to the Merger the Verizon Group transferred certain specified assets and liabilities of the local exchange businesses of Verizon New England in Maine, New Hampshire and Vermont and the customers of the related voice and Internet service provider businesses in those states to subsidiaries of Spinco. The Merger was accounted for as a “reverse acquisition” of Legacy FairPoint by Spinco under the purchase method of accounting because Verizon stockholders owned a majority of the shares of the consolidated Company following the Merger and, therefore, Spinco is treated as the acquirer for accounting purposes. The following financial information reflects the transaction as if Spinco had issued consideration to Legacy FairPoint’s shareholders. As a result, for the year ended December 31, 2008, financial information derived from the statement of operations reflects the consolidated financial results of the Company by including the financial results of the Verizon Northern New England business for the three months ended March 31, 2008, the financial results of Spinco for the nine months ended December 31, 2008 and the financial results of Legacy FairPoint for the nine months ended December 31, 2008. Financial information derived from the statement of operations for all periods prior to April 1, 2008 reflects the actual results of the Verizon Northern New England business for such periods. Financial information derived from the balance sheet reflects the consolidated assets and liabilities of Legacy FairPoint and Spinco at December 31, 2008.

As of the Effective Date, we adopted fresh start accounting in accordance with the Reorganizations Topic of the Accounting Standards Codification ("ASC"), pursuant to which our reorganization value, which represents the fair value of the entity before considering liabilities and approximates the amount a willing buyer would pay for the assets of the entity immediately after the reorganization, has been allocated to the fair value of assets in conformity with guidance under the Business Combinations Topic of the ASC, using the purchase method of accounting for business combinations. The amount remaining after allocation of the reorganization value to the fair value of identified tangible and intangible assets will be reflected as goodwill, which is subject to periodic evaluation for impairment. In addition to fresh start accounting, our future consolidated financial statements will reflect all effects of the transactions contemplated by the Plan; therefore, our future statements of financial position and statements of operations will not be comparable in many respects to our consolidated statements of financial position and consolidated statements of operations for periods prior to our adoption of fresh start accounting and prior to accounting for the effects of the reorganization, including the financial statements contained herein. As a result, our financial and operating results for the year ended December 31, 2010 may not be indicative of future financial performance.

On the Effective Date, in accordance with the Plan, all equity compensation plans in effect at the end of the most recently completed fiscal year were terminated and all awards thereunder were cancelled and extinguished. In addition, on the Effective Date, in accordance with the Plan, (i) certain of our employees and a consultant of ours received New Common Stock awards, consisting of restricted shares of New Common Stock and/or options to purchase shares of New Common Stock, pursuant to the terms of the Long Term Incentive Plan, and (ii) members of the New Board received restricted shares of New Common Stock and options to purchase New Common Stock pursuant to the terms of the Long Term Incentive Plan. As of March 25, 2011, we had 26,197,432 shares of Common Stock outstanding.

The following financial information should be read in conjunction with "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations" and our consolidated financial statements and notes thereto contained elsewhere in this Annual Report. Amounts are in thousands, except access lines and per share data.

	Year Ended December 31,				
	2010	2009	2008	2007	2006
Statement of Operations:					
Revenues	$ 1,070,986	$ 1,119,090	$1,274,619	$1,197,465	$1,193,392
Operating expenses:					
Cost of services and sales	525,728	515,394	576,786	555,954	540,305
Selling, general and administrative expenses	365,373	417,512	384,388	288,762	283,089
Depreciation and amortization	289,824	275,334	255,032	233,231	258,515
Total operating expenses	1,180,925	1,208,240	1,216,206	1,077,947	1,081,909
Income (loss) from operations	(109,939)	(89,150)	58,413	119,518	111,483
Interest expense(1)	(140,896)	(204,919)	(162,040)	(70,581)	(65,741)
Gain (loss) on derivative instruments	—	12,320	(11,800)	—	—
Gain on early retirement of debt	—	12,357	—	—	—
Other income, net	2,715	2,000	3,494	3,350	3,531
Income (loss) before reorganization items and income taxes	(248,120)	(267,392)	(111,933)	52,287	49,273
Reorganization items	(41,120)	(53,018)	—	—	—
Income (loss) before income taxes	(289,240)	(320,410)	(111,933)	52,287	49,273
Income tax (expense) benefit	7,661	79,014	43,408	(19,459)	(17,322)
Net income (loss)	$ (281,579)	$ (241,396)	$ (68,525)	$ 32,828	$ 31,951
Basic shares outstanding	89,424	89,271	80,443	53,761	53,761
Diluted shares outstanding	89,424	89,271	80,443	53,761	53,761
Basic and diluted earnings (loss) per share	$ (3.15)	$ (2.70)	$ (0.85)	$ 0.61	$ 0.59
Cash dividends per share	$ —	$ 0.2575	$ 0.773	$ —	$ —
Operating Data:					
Capital expenditures	$ 197,795	$ 178,752	$ 296,992	$ 149,458	$ 213,808
Access line equivalents(2)	1,417,290	1,545,976	1,721,709	1,600,971	1,703,375
Residential access lines	712,591	802,668	926,610	882,933	966,267
Business access lines	327,812	357,605	392,496	371,041	390,379
Wholesale access lines(3)	87,142	97,161	107,243	124,123	149,998
HSD subscribers	289,745	288,542	295,360	222,874	196,731
Summary Cash Flow Data:					
Net cash provided by operating activities	$ 191,626	$ 150,323	$ 57,505	$ 264,504	$ 340,590
Net cash used in investing activities	(197,268)	(177,391)	(283,332)	(137,216)	(212,542)
Net cash provided by (used in) financing activities	1,784	66,098	296,152	(127,288)	(128,048)
Balance Sheet Data (at period end):					
Cash, excluding restricted cash of $4,098, $4,036 and $68,503 at December 31, 2010, 2009 and 2008	$ 105,497	$ 109,355	$ 70,325	$ —	$ —
Property, plant and equipment, net	1,859,700	1,950,435	2,013,515	1,628,066	1,701,425
Total assets	2,973,794	3,172,122	3,335,940	1,938,172	2,044,796
Total long-term debt(4)	2,520,959	2,515,446	2,470,253	—	—
Total stockholders' equity (deficit)	(587,418)	(218,427)	23,786	1,119,162	1,211,913

(1) Interest expense includes amortization of debt issue costs aggregating $2.0 million and $3.8 million for the fiscal years ended December 31, 2010 and 2009, respectively, as well as amortization of debt discount of $0.5 million for the fiscal year ended December 31, 2009. Debt issue costs of $23.8 million on the Pre-Petition Credit Facility and following the filing of the Chapter 11 Cases, $9.9 million of discount on the Pre-Petition Notes were written off in order to adjust the carrying amount of our pre-petition debt to the Bankruptcy Court approved amount of the allowed claims for our pre-petition debt. These write-offs are included in Reorganization items for the year ended December 31, 2009.

(2) Total access line equivalents includes voice access lines and HSD lines, which include DSL lines, wireless broadband, cable modem and fiber-to-the-premises.

(3) Wholesale access lines include residential and business resale lines and unbundled network element platform (“UNEP”) lines.

(4) Long-term debt at December 31, 2010 and 2009 is included in Liabilities subject to compromise (see note 2 to the consolidated financial statements for further information).

ITEM 7. MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion should be read in conjunction with our financial statements and the notes thereto included elsewhere in this Annual Report. The following discussion includes certain forward-looking statements. For a discussion of important factors, including the continuing development of our business, actions of regulatory authorities and competitors and other factors which could cause actual results to differ materially from the results referred to in the forward-looking statements, see “Item 1A. — Risk Factors” in this Annual Report.

On October 26, 2009, we filed the Chapter 11 Cases. On January 13, 2011, the Bankruptcy Court entered the Confirmation Order which confirmed our Third Amended Joint Plan of Reorganization Under Chapter 11 of the Bankruptcy Code (as confirmed, the “Plan”).

On January 24, 2011 (the “Effective Date”), we substantially consummated our reorganization through a series of transactions contemplated by the Plan, and the Plan became effective pursuant to its terms.

For a description of the Chapter 11 Cases and the Plan, see “Item. 1—Business—Emergence from Chapter 11 Proceedings.”

Overview

We are a leading provider of communications services in rural and small urban communities, offering an array of services, including HSD, Internet access, voice, television and broadband product offerings. We operate in 18 states with approximately 1.4 million access line equivalents (including voice access lines and HSD lines, which include DSL, wireless broadband, cable modem and fiber-to-the-premises) in service as of December 31, 2010.

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

As our primary source of revenues, access lines are an important element of our business. Over the past several years, communications companies, including FairPoint, have experienced a decline in access lines due to increased competition, including competition from wireless carriers and cable television operators, increased availability of broadband services and challenging economic conditions. In addition, while we were operating under the Transition Services Agreement, we had limited ability to change current product offerings. Upon completion of the Cutover from the Verizon systems to the new FairPoint systems, we expected to be able to modify bundles and prices to be more competitive in the marketplace. However, due to certain systems functionality issues (as described herein), we have had limited ability to make changes to our product offerings. While voice access lines are expected to continue to decline, we expect to offset a portion of this lost revenue with growth in HSD revenue as we continue to build-out our network to provide HSD products to customers who did not previously have access to such products and to offer more competitive services to existing customers. In addition, due to the Cutover issues and the Chapter 11 Cases, we have lost significant market share in recent years. Our strategy will be to leverage our ubiquitous network in our Northern New England operations to regain market share, particularly in the business and wholesale markets and for data services.

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

Legacy FairPoint's operations and our Northern New England operations operate under different regulatory regimes in certain respects. For example, concerning interstate access, all of the pre-Merger regulated interstate services of FairPoint were regulated under a rate-of-return model, while all of the rate-regulated interstate services provided by the Verizon Northern New England business were regulated under a price cap model. On May 10, 2010, we received FCC approval to convert our Legacy FairPoint operations in Maine and Vermont to the price cap model. Our Legacy FairPoint operations in Maine and Vermont converted to price cap regulation on July 1, 2010. We have obtained permission to continue to operate our Legacy FairPoint ILECs outside of Maine and Vermont under the rate-of-return regime until the FCC completes its general review of whether to modify or eliminate the "all-or-nothing" rule. Without this permission, the all-or-nothing rule would require that all of our regulated operations be operated under the price cap model for federal regulatory purposes. In addition, while all of our operations generally are subject to obligations that apply to all LECs, our non-rural operations are subject to additional requirements concerning interconnection, non-discriminatory network access for competitive communications providers and other matters, subject to substantial oversight by state regulatory commissions. In addition, the FCC has ruled that our Northern New England operations must comply with the regulations applicable to the Bell Operating Companies. Our rural and non-rural operations are also subject to different regimes concerning universal service.

From 2007 through January 2009, we were in the process of developing and deploying new systems, processes and personnel to replace those used by Verizon to operate and support our network and back-office functions in the Maine, New Hampshire and Vermont operations acquired from Verizon. These services were provided by Verizon under the Transition Services Agreement from March 31, 2008 through January 30, 2009. On January 30, 2009, we began the Cutover, and on February 9, 2009, we began operating our new platform of systems independently from the Verizon systems, processes and personnel.

Following the Cutover, many of these systems functioned without significant problems, but a number of the key back-office systems, such as order entry, order management and billing, experienced certain functionality issues as well as issues with communication between the systems. As a result of these systems functionality issues, as well as work force inexperience on the new systems, we experienced increased handle time by customer service representatives for new orders, reduced levels of order flow-through across the systems, which caused delays in provisioning and installation, and delays in the processing of bill cycles and collection treatment efforts. These issues impacted customer satisfaction and resulted in large increases in customer call volumes into our customer service centers. While many of these issues were anticipated, the magnitude of difficulties experienced was beyond our expectations. Because of these Cutover issues, we have incurred incremental costs in order to operate our business, including third-party contractor costs and internal labor costs in the form of overtime pay. By the end of 2010, we have substantially stabilized the back-office systems. We continue to work on improving our processes and systems to support revenue growth, enhance customer service and increase operational efficiency.

Fresh Start Accounting

Upon our emergence from Chapter 11 on January 24, 2011, we adopted fresh start accounting pursuant to which our reorganization value, which represents the fair value of an entity before considering liabilities and approximates the amount a willing buyer would pay for the assets of the entity immediately after the reorganization, has been allocated to the fair value of assets in conformity with guidance under the applicable accounting rules for business combinations, using the purchase method of accounting for business combinations. In addition to fresh start accounting, our future consolidated financial statements will reflect all effects of the transactions contemplated by the Plan, therefore our future statements of financial position and statements of operations will not be comparable in many respects to our consolidated statements of financial position and consolidated statements of operations for periods prior to our adoption of fresh start accounting and prior to accounting for the effects of the reorganization, including the financial statements contained in this Annual Report on Form 10-K.

Basis of Presentation

On March 31, 2008, the Merger between Spinco and Legacy FairPoint was completed. In connection with the Merger and in accordance with the terms of the Merger Agreement, Legacy FairPoint issued 53,760,623 shares of the Old Common Stock to Verizon stockholders. Prior to the Merger, the Verizon Group engaged in a series of restructuring transactions to effect the transfer of specified assets and liabilities of the Verizon Northern New England business to Spinco and the entities that became Spinco's subsidiaries. Spinco was then spun off from Verizon immediately prior to the Merger. While FairPoint was the surviving entity in the Merger, for accounting purposes Spinco is deemed to be the acquirer. As a result, for the year ended December 31, 2008, the statement of operations and the financial information derived from the statement of operations in this Annual Report reflect the consolidated financial results of the Company by including the financial results of the Verizon Northern New England business for the three months ended March 31, 2008, the financial results of Spinco for the nine months ended December 31, 2008 and the financial results of Legacy FairPoint for the nine months ended December 31, 2008. The statement of operations and the financial information derived from the statement of operations for the nine months ended December 31, 2008 in this Annual Report reflects the actual results of the consolidated Company (FairPoint and Spinco) for such period. The balance sheet and financial information derived from the balance sheet in this Annual Report reflect the consolidated assets and liabilities of Legacy FairPoint and Spinco at December 31, 2010 and 2009. Certain assets and liabilities of the Verizon Northern New England business (principally related to pension, other post-employment benefits and associated deferred taxes) were not distributed to Spinco prior to the Merger. The statements of operations in this Annual Report may not be indicative of our future results. For more information, see note 1 to the consolidated financial statements.

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

Revenues

We derive our revenues from:

- *Voice services.* We receive revenues from our telephone operations from the provision of local exchange, long distance, local private line, wire maintenance, voice messaging and value-added services. Included in long-distance services revenue are revenues received from regional toll calls. Value-added services are a family of services that expand the utilization of the network, including products such as caller ID, call waiting and call return. The provision of local exchange services not only includes retail revenues but also includes local wholesale revenues from UNEs, interconnection revenues from CLECs and wireless carriers, and some data transport revenues. Local calling services revenues also include Universal Service Fund payments for high-cost loop support, local switching support, long-term support and ICLS.
- *Access.* We receive revenues for the provision of network access, including interstate access and intrastate access.

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

  Interstate access revenues are earned on charges to long-distance carriers and other customers for access to our networks in connection with the origination and termination of interstate telephone calls both to and from our customers. Interstate access charges to long-distance carriers and other customers are based on access rates filed with the FCC.

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

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

The following summarizes our revenues and percentage of revenues from these sources:

	Year Ended December 31,			Year Ended December 31,		
	2010	2009	2008	2010	2009	2008
		Revenue (In thousands)			% of Revenue	
Voice services	$ 531,623	$ 581,653	$ 747,621	50%	52%	59%
Access	381,089	380,502	370,809	36	34	29
Data and Internet services	110,223	109,942	114,906	10	10	9
Other services	48,051	46,993	41,283	4	4	3
Total	$1,070,986	$1,119,090	$1,274,619	100%	100%	100%

The following table summarizes access line equivalents (including voice access lines and HSD lines, which include DSL, wireless broadband, cable modem and fiber-to-the-premises):

	December 31, 2010	December 30, 2009	December 31, 2008
Access Line Equivalents:			
Residential access lines	712,591	802,668	926,610
Business access lines	327,812	357,605	392,496
Wholesale access lines(1)	87,142	97,161	107,243
Total switched access lines	1,127,545	1,257,434	1,426,349
HSD subscribers	289,745	288,542	295,360
Total access line equivalents	1,417,290	1,545,976	1,721,709

(1) Wholesale access lines include residential and business resale lines and unbundled network element platform (“UNEP”) lines.

Operating Expenses

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

- *Cost of Services and Sales*. Cost of services and sales includes the following costs directly attributable to a service or product: salaries and wages, benefits, materials and supplies, contracted services, network access and transport costs, customer provisioning costs, computer systems support and cost of products sold. Aggregate customer care costs, which include billing and service provisioning, are allocated between cost of services and sales and selling, general and administrative expenses.
- *Selling, General and Administrative Expense*. Selling, general and administrative expense includes salaries and wages and benefits not directly attributable to a service or product, bad debt charges, taxes other than income, advertising and sales commission costs, customer billing, call center and information technology costs, professional service fees and rent for administrative space. Also included in selling, general and administrative expenses are non-cash expenses related to stock based compensation. Stock based compensation consists of compensation charges incurred in connection with the employee stock options, stock units and non-vested restricted stock granted to executive officers, other employees and directors.

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

Because the Verizon Northern New England business had been operating as the LEC of Verizon in Maine, New Hampshire and Vermont, and not as a standalone telecommunications provider, the historical operating results of the Verizon Northern New England business for the three months ended March 31, 2008 include approximately $58.0 million of expenses for services provided by the Verizon Group, including information systems and information technology, shared assets including office space outside of New England, supplemental customer sales and service and operations. During the one month ended January 2009 and nine months ended December 31, 2008, we operated under the Transition Services Agreement, under which we incurred $15.9 million and $148.6 million of expenses, respectively. Subsequent to January 30, 2009, we performed those services internally or obtained them from third-party service providers and not from Verizon.

Acquisitions and Dispositions

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

Results of Operations

The following table sets forth the percentages of revenues represented by selected items reflected in our consolidated statements of operations. The year to year comparisons of financial results are not necessarily indicative of future results:

	Year Ended December 31,		Year Ended December 31,		Year Ended December 31,	
	2010	% of revenue	2009	% of revenue	2008	% of revenue
Revenues	$ 1,070,986	100.0%	$ 1,119,090	100.0%	$ 1,274,619	100.0%
Operating expenses						
Cost of services and sales	525,728	49.1	515,394	46.1	576,786	45.3
Selling, general and administrative expense	365,373	34.1	417,512	37.3	384,388	30.2
Depreciation and amortization	289,824	27.1	275,334	24.6	255,032	20.0
Total operating expenses	1,180,925	110.3	1,208,240	108.0	1,216,206	95.5
Income (loss) from operations	(109,939)	(10.3)	(89,150)	(8.0)	58,413	4.5
Other income (expense):						
Interest expense	(140,896)	(13.2)	(204,919)	(18.3)	(162,040)	(12.7)
Gain (loss) on derivative instruments	—	—	12,320	1.1	(11,800)	(0.9)
Gain on early retirement of debt	—	—	12,357	1.1	—	—
Other income, net	2,715	0.3	2,000	0.2	3,494	0.3
Total other expense	(138,181)	(12.9)	(178,242)	(15.9)	(170,346)	(13.3)
Loss before reorganization items and income taxes	(248,120)	(23.2)	(267,392)	(23.9)	(111,933)	(8.8)
Reorganization items	(41,120)	(3.8)	(53,018)	(4.7)	—	—
Loss before income taxes	(289,240)	(27.0)	(320,410)	(28.6)	(111,933)	(8.8)
Income tax benefit	7,661	0.7	79,014	7.0	43,408	3.4
Net loss	$ (281,579)	(26.3)%	$ (241,396)	(21.6)%	$ (68,525)	(5.4)%

Year Ended December 31, 2010 Compared with Year Ended December 31, 2009

Revenues

Revenues decreased $48.1 million to $1,071.0 million in 2010 compared to 2009. Revenues in each of our revenue categories have been impacted by continued weakness of the economy during 2010, which has caused a decrease in discretionary consumer spending and resulted in an increase in access line losses and a decrease in usage. Our voice revenues have also been adversely impacted by the effects of competition and the use of alternative technologies. Additionally, because of Cutover issues that prevented us from executing fully on our operating plan for 2009, as well as detrimental effects of the Chapter 11 Cases, our revenue has continued to decline. We derived our revenues from the following sources:

Voice services. Voice services revenues decreased $50.0 million to $531.6 million in 2010. This decrease consists of a $30.8 million decrease in long distance services revenues and an $19.2 million decrease in local calling services revenues and is primarily attributable to a 10.3% decline in total voice access lines in service at December 31, 2010 compared to December 31, 2009, largely offset by a $14.3 million decline in SQI penalties in addition to a $12.7 million reduction of an accrual for forgiveness of fiscal 2008 and 2009 SQI penalties in New Hampshire and Vermont. SQI penalties are settled by crediting customer accounts and are recorded as a reduction to revenue. The decrease in the number of voice access lines is due to an increase in competition from technology substitution and the weakness of the economy.

Access. Access revenues were steady in 2010, increasing $0.6 million to $381.1 million in 2010 compared to 2009. Of this increase, $12.2 million is attributable to an increase in interstate access revenues, largely offset by an $11.6 million decrease in intrastate access revenues. Decreases of $7.4 million (9.9%) and $10.4 million (9.7%) in switched access revenues and end user revenues, respectively, were primarily attributable to a 10.3% decline in total voice access lines in service at December 31, 2010 compared to December 31, 2009. However, these declines were more than offset by an $18.3 million (10.4%) increase in special access revenues driven by increased efforts to sell our excess network capacity to other carriers as well as the availability of such excess capacity resulting from the build-out of our Next Generation Network.

Data and Internet services. Data and Internet services revenues increased $0.3 million to $110.2 million in 2010 compared to 2009. This increase is primarily attributable to an increase in HSD subscribers resulting from our bundling and other marketing efforts.

Other services. Other services revenues increased $1.1 million to $48.1 million in 2010 compared to 2009.

Operating Expenses

Cost of services and sales. Cost of services and sales increased $10.3 million to $525.7 million in 2010 compared to 2009. This increase is primarily attributable to the write-off of abandoned projects in 2010 of approximately $15.1 million. Cost of services and sales was also impacted by certain non-recurring items totaling approximately $13.3 million. Excluding the abandonment charges and the prior year expenses, cost of services and sales would have declined approximately $18.1 million.

Selling, general and administrative. Selling, general and administrative expenses decreased $52.1 million to $365.4 million in 2010 compared to 2009. The decrease is primarily attributable to a $27.9 million reduction in bad debt expense due to improved cash collections during 2010 and settlements with CLECs related to the Chapter 11 Cases. Additionally, prior to the Petition Date, all expenses related to restructuring activities were classified as selling, general and administrative expenses. During the Chapter 11 Cases, such expenses have been classified as Reorganization items. Accordingly, the year ended December 31, 2009 included $11.1 million in restructuring expenses as compared to zero for the year ended December 31, 2010.

Depreciation and amortization. Depreciation and amortization increased $14.5 million to $289.8 million in 2010 compared to 2009, due primarily to significant capital expenditures in 2010 and the placement of plant assets into service.

Included in operating expenses are non-cash stock based compensation expenses associated with the award of restricted stock and stock units. Stock based compensation expenses totaled $0.5 million and $2.1 million for the years ended December 31, 2010 and 2009, respectively.

Other Results

Interest expense. Interest expense decreased $64.0 million to $140.9 million in 2010 compared to 2009. Upon the filing of the Chapter 11 Cases, in accordance with the Reorganizations Topic of the ASC, we ceased the accrual of interest expense on the Pre-Petition Notes and the interest rate swap agreements under the ISDA Master Agreement with Wachovia Bank, N.A., dated as of December 12, 2000, as amended and restated as of February 1, 2008, and the ISDA Master Agreement with Morgan Stanley Capital Services Inc., dated as of February 1, 2005 (collectively, the “Swaps”) as it was unlikely that such interest expense would be paid or would become an allowed priority secured or unsecured claim, resulting in a significant decrease in 2010 interest expense. We continued to accrue interest expense on the Pre-Petition Credit Facility, as such interest is considered an allowed claim pursuant to the Plan.

Gain (loss) on derivative instruments. Gain (loss) on derivative instruments represents net gains and losses recognized on the change in fair market value of interest rate swap derivatives. During the year ended December 31, 2009 we recognized a net non-cash gain of $12.3 million related to our derivative financial instruments. In connection with the filing of the Chapter 11 Cases, the Swaps were terminated by the counterparties and have been recorded on the consolidated balance sheet at the termination values provided by the counterparties. Accordingly, we recognized no gain or loss on derivative instruments during the year ended December 31, 2010.

Gain on early retirement of debt. Gain on early retirement of debt represents $13.2 million net gains recognized on the repurchase of $19.9 million aggregate principal amount of the Old Notes during the year ended December 31, 2009, partially offset by a loss of $0.8 million attributable to writing off a portion of the unamortized debt issue costs associated with the Pre-Petition Credit Facility. We did not retire any debt during the year ended December 31, 2010 and thus did not recognize any gain or loss on early retirement of debt during such period.

Other income (expense). Other income (expense) includes non-operating gains and losses such as those incurred on sale or disposal of equipment. Other income was $2.7 million in 2010 compared to other income of $2.0 million in 2009. This increase is primarily attributable to a $3.0 million lease contract settlement with a vendor that occurred during the third quarter of 2010.

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

Income taxes. The effective income tax rate is the provision for income taxes stated as a percentage of income before the provision for income taxes. The effective income tax rate for the years ended December 31, 2010 and 2009 was 2.6% benefit and 24.7% benefit, respectively. The effective tax rate for the year ended December 31, 2010 was impacted by a one-time, non-cash income tax charge of $6.8 million, as a result of the enactment of Patient Protection and Affordable Care Act and the Health Care and Education Reconciliation Act of 2010, both of which became law in March 2010 (collectively, the “Health Care Act”). The effective tax rate was also impacted by non-deductible restructuring charges and post-petition interest, as well as a significant increase in our valuation allowance for deferred tax assets due to our inability, by rule, to rely on future earnings to offset our NOLs during the Chapter 11 Cases. Upon the Effective Date, our NOLs will be substantially reduced by the recognition of gains on the discharge of certain debt pursuant to the Plan. Further, our ability to utilize our NOL carryforwards will be limited by Section 382 of the Internal Revenue Code of 1986, as amended, upon emergence as the debt restructuring constitutes an ownership change. We expect to pay minimal cash taxes in 2011.

Net loss. Net loss for the year ended December 31, 2010 was $(281.6) million compared to net loss of $(241.4) million for the year ended December 31, 2009. The difference in net loss between 2010 and 2009 is a result of the factors discussed above.

Year Ended December 31, 2009 Compared with Year Ended December 31, 2008

Revenues

Revenues decreased $155.5 million to $1,119.1 million in 2009 compared to 2008. The acquisition of the Telecom Group contributed $245.5 million and $196.7 million to total revenues in the years ended December 31, 2009 and 2008, respectively. Excluding the acquisition of the Telecom Group, combined total revenue would have decreased $204.3 million. Revenues in each of our revenue categories were impacted by the weakness of the economy during 2008 and 2009, which caused a decrease in discretionary consumer spending and resulted in an increase in access line losses and a decrease in usage. Our revenues have also been adversely impacted by the effects of competition and the use of alternative technologies. Additionally, because of Cutover issues that prevented us from executing fully on our operating plan for 2009, as well as detrimental effects of the Chapter 11 Cases, our revenue has continued to decline. We derived our revenues from the following sources:

Voice services. Voice service revenues decreased $166.0 million to $581.7 million in 2009. The Telecom Group contributed $98.4 million and $84.6 million to voice service revenue for the years ended December 31, 2009 and 2008, respectively. Excluding the acquisition of the Telecom Group, voice service revenues would have decreased $179.8 million. This decrease consists of a $137.0 million decrease in local calling services revenues and a $42.8 million decrease in long distance services revenues. The decrease is partially attributable to a reduction in revenue totaling $26.0 million for the year ended December 31, 2009 for service quality penalties incurred in the northern New England states coupled with an 11.8% decline in total voice access lines in service at December 31, 2009 compared to December 31, 2008. The revenue decline was mainly driven by the effects of competition and technology substitution, partially offset by increased revenue from bundled product offerings designed to retain customers and generate more revenue.

Access. Access revenues increased $9.7 million to $380.5 million in 2009 compared to 2008. The Telecom Group contributed $93.5 million and $71.4 million to access revenues for the years ended December 31, 2009 and 2008, respectively. Excluding the acquisition of the Telecom Group, access revenues would have decreased $12.4 million. Of this decrease, $9.5 million is attributable to a decrease in interstate access revenues and $2.9 million is attributable to a decrease in intrastate access revenues. Decreases in interstate and intrastate access revenues are attributable to decreases in access rates and minutes of use compared to 2008, reflecting the impact of access line loss and technology substitution as well as weakness of the economy.

Data and Internet services. Data and Internet services revenues decreased $5.0 million to $109.9 million in 2009 compared to 2008. The Telecom Group contributed $36.6 million and $27.6 million to data and Internet services revenues in the years ended December 31, 2009 and 2008, respectively. Excluding the acquisition of the Telecom Group, data and Internet services would have decreased $14.0 million. This decrease is primarily due to a slowing in our HSD subscriber growth, caused by the absence of promotional advertising on our data and Internet products due to Cutover issues as well as the weakness of the economy.

Other services. Other services revenues increased $5.7 million to $47.0 million in 2009 compared to 2008. The Telecom Group contributed $16.9 million and $13.1 million to other services revenues in the years ended December 31, 2009 and 2008, respectively. Excluding the acquisition of the Telecom Group, other services revenue would have increased $1.9 million.

Operating Expenses

Cost of services and sales. Cost of services and sales decreased $61.4 million to $515.4 million in 2009 compared to 2008. The Telecom Group contributed $88.7 million and $80.5 million to cost of services and sales in the years ended December 31, 2009 and 2008, respectively. Also included in cost of services and sales for the years ended December 31, 2009 and 2008 are $6.1 million and $56.7 million, respectively, of expenses related to the Transition Services Agreement, which was terminated on January 30, 2009. Excluding the acquisition of the Telecom Group and the Transition Services Agreement, cost of services and sales would have declined $19.0 million. The decline reflects the elimination of costs allocated from Verizon affiliates prior to the closing of the Merger and the methodology utilized by Verizon to allocate certain expenses to cost of services and sales prior to the Cutover to our own operating systems, which have more than offset direct costs incurred by us to operate our Northern New England operations.

Selling, general and administrative. Selling, general and administrative expenses increased $33.1 million to $417.5 million in 2009 compared to 2008. The Telecom Group contributed $79.2 million and $38.1 million to selling, general and administrative expenses in the years ended December 31, 2009 and 2008, respectively. Included in selling, general and administrative expenses in the years ended December 31, 2009 and 2008 are $9.8 million and $91.9 million, respectively, of expenses related to the Transition Services Agreement, and $28.0 million and $52.2 million, respectively, of non-recurring Cutover related costs. Excluding the acquisition of the Telecom Group and the Transition Services Agreement, selling, general and administrative expenses would have increased $98.3 million. The increase is primarily due to a $23.2 million increase in bad debt expense, increases in other operating expenses, some of which are attributable to the methodology utilized by Verizon to allocate certain expenses to selling, general and administrative expenses prior to the Cutover to our own operating systems, as well as $11.1 million in costs incurred to effect a restructuring of our capital structure prior to filing bankruptcy.

Depreciation and amortization. Depreciation and amortization increased $20.3 million to $275.3 million in 2009 compared to 2008. The Telecom Group contributed $36.7 million and $27.8 million to depreciation and amortization expense in the years ended December 31, 2009 and 2008, respectively. Excluding the acquisition of the Telecom Group, depreciation and amortization expense would have increased $11.4 million, due primarily to increased gross plant asset balances, including capitalized software placed into service upon termination of the Transition Services Agreement. Also contributing to the increase in depreciation and amortization expense in 2009 is an increase of $5.6 million in amortization expense on intangible assets acquired in the Merger, as no such amortization was recognized during the first quarter of 2008, prior to the Merger.

Included in operating expenses are non-cash stock based compensation expenses associated with the award of restricted stock and restricted units. Stock based compensation expenses totaled $2.1 million and $4.4 million for the years ended December 31, 2009 and 2008, respectively.

Other Results

Interest expense. Interest expense increased $42.9 million to $204.9 million in 2009 compared to 2008. This increase is due to the debt that we incurred upon and subsequent to the closing of the Merger. Accrued and unpaid interest on the Old Notes exchanged in connection with our offer to exchange the Old Notes for the New Notes (the “Exchange Offer”) through July 28, 2009 was paid on July 29, 2009 in the form of additional New Notes totaling $18.9 million. Accrued and unpaid interest on the New Notes from July 29, 2009 through September 30, 2009 was payable in the form of additional New Notes totaling $12.2 million. This $31.1 million interest expense paid or payable in the form of New Notes has been treated as non-cash for purposes of our financial debt covenants under the Pre-Petition Credit Facility. Additionally, upon the filing of the Chapter 11 Cases, in accordance with the Reorganizations Topic of the ASC, we ceased the accrual of interest expense on the Pre-Petition Notes and the Swaps as it was unlikely that such interest expense would be paid or would become an allowed priority, secured or unsecured claim. We continued to accrue interest expense on the Pre-Petition Credit Facility, as such interest is considered an allowed claim pursuant to the Plan.

Gain (loss) on derivative instruments. Gain (loss) on derivative instruments represents net gains and losses recognized on the change in fair market value of interest rate swap derivatives. During the years ended December 31, 2009 and 2008, respectively, we recognized a net non-cash gain of $12.3 million and a net non-cash loss of $11.8 million related to our derivative financial instruments. In connection with the filing of the Chapter 11 Cases, the Swaps were terminated by the counterparties and have been recorded on the consolidated balance sheet at the termination values provided by the counterparties.

Gain on early retirement of debt. Gain on early retirement of debt represents $13.2 million net gains recognized on the repurchase of $19.9 million aggregate principal amount of the Old Notes during the year ended December 31, 2009, partially offset by a loss of $0.8 million attributable to writing off a portion of the unamortized debt issue costs associated with the Pre-Petition Credit Facility.

Other income (expense). Other income (expense) includes non-operating gains and losses such as those incurred on sale of equipment. Other income decreased $1.5 million to $2.0 million in 2009 compared to 2008.

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

Income taxes. The effective income tax rate is the provision for income taxes stated as a percentage of income before the provision for income taxes. The effective income tax rate for the year ended December 31, 2009 and 2008 was 24.7% benefit and 38.8% benefit, respectively. The significant decrease in the effective tax rate is due primarily to an increase in our deferred tax valuation allowance, as well as non-deductible restructuring charges and post-petition interest.

Net income (loss). Net loss for the year ended December 31, 2009 was $(241.4) million compared to net loss of $(68.5) million for the year ended December 31, 2008. The difference in net loss between 2009 and 2008 is a result of the factors discussed above.

Liquidity and Capital Resources

Our short-term and long-term liquidity needs arise primarily from: (i) interest and principal payments on our indebtedness; (ii) capital expenditures; and (iii) working capital requirements as may be needed to support and grow our business. Our current and future liquidity is greatly dependent upon our operating results. We expect that our primary sources of liquidity will be cash flow from operations, cash on hand and funds available under the Exit Credit Agreement.

Based on our current and anticipated levels of operations and conditions in our markets, we believe that cash on hand (including amounts available under our Exit Credit Agreement) as well as cash flow from operations will enable us to meet our working capital, capital expenditure, debt service and other funding requirements for at least the next 12 months. We expect to be in compliance with the covenants contained in our financing agreements in 2011. However, our anticipated results are subject to significant uncertainty and our ability to comply with this limitation may be affected by events beyond our control, including prevailing economic, financial and industry conditions. The breach of certain covenants set forth in our financing agreements could result in an event of default thereunder. An event of default would permit the lenders under a defaulted financing agreement to declare all indebtedness thereunder to be due and payable prior to maturity. Moreover, the lenders under our Exit Revolving Facility under our Exit Credit Agreement would have the option to terminate their commitments to make further extensions of revolving credit thereunder. If we are unable to repay our obligations under our Exit Credit Agreement, the lenders could proceed against any assets that were pledged to secure such facility.

Cash and cash equivalents at December 31, 2010 totaled $105.5 million compared to $109.4 million at December 31, 2009, excluding restricted cash of $4.1 million and $4.0 million, respectively.

On the Effective Date, we significantly reduced our cash on hand by approximately $91.0 million to establish a cash reserve (the “Claims Reserve”) from which outstanding bankruptcy claims and various other bankruptcy related fees will be paid. Tax related claims were not included in the Claims Reserve. As of the Effective Date, cash and cash equivalents totaled $15.7 million, excluding Claims Reserve of $77.9 million, following payment of $13.1 million in claims on the Effective Date. In accordance with the Plan, to the extent that claims are settled for amounts lower than estimated in the Claims Reserve, we could reclaim restricted cash of up to $32.6 million.

Net cash provided by operating activities was $191.6 million, $150.3 million and $57.5 million for the years ended December 31, 2010, 2009 and 2008, respectively.

Net cash used in investing activities was $197.3 million, $177.4 million and $283.3 million for the years ended December 31, 2010, 2009 and 2008, respectively. These cash flows primarily reflect capital expenditures of $197.8 million, $178.8 million and $297.0 million for the years ended December 31, 2010, 2009 and 2008, respectively. Net cash used in investing activities also includes acquired cash of $11.4 million for the year ended December 31, 2008.

Net cash provided by financing activities was $1.8 million, $66.1 million and $296.2 million for the years ended December 31, 2010, 2009 and 2008, respectively. For the year ended December 31, 2010, we drew down $5.5 million on letters of credit under the Pre-Petition Credit Facility and incurred $1.5 million of loan origination costs on the DIP Credit Agreement. For the year ended December 31, 2009, net proceeds from our issuance of long-term debt were $50.0 million, repayment of long-term debt was $20.8 million and dividends paid to stockholders was $23.0 million. Additionally, $65.1 million was released from restricted cash during the year ended December 31, 2009. For the year ended December 31, 2008, net proceeds from our issuance of long-term debt were $1,930.0 million, repayment of long-term debt was $687.5 million and dividends to stockholders was $1,220.0 million, of which $1,160.0 million was paid to Verizon by Spinco as a dividend in connection with the Merger.

We expect our capital expenditures will be approximately $180 million to $200 million in 2011. We anticipate that we will fund these expenditures through cash flows from operations, cash on hand and funds available under the Exit Credit Agreement.

We have a five year contract with our primary IT vendor which was executed in 2009. In 2010, we spent approximately $28.3 million for services under such contract, of which approximately $12.9 million was capitalized in accordance with the Intangibles — Goodwill and Other Topic and the Interest Topic of the ASC and approximately $15.4 million was included in operating expenses. Our contract includes a baseline spend in 2011 with this vendor of approximately $22.1 million, which will be allocated between capital expenditures and operating expenses depending on the type of activities performed. While the contract term is five years, we have the ability to reduce the amount we spend with this vendor below the baseline amount by either in-sourcing certain work functions or finding alternate vendors. In order to reduce our spend below the contractual amount, we are required to provide six months notice to the vendor for the work functions we wish to move or eliminate.

We expect our contributions to our Company sponsored employee pension plans and post-retirement healthcare plans will be approximately $9.3 million in 2011.

Exit Credit Agreement

On the Effective Date, FairPoint Communications and FairPoint Logistics entered into the Exit Credit Agreement. The Exit Credit Agreement is comprised of the Exit Revolving Facility and the Exit Credit Agreement Loans. On the Effective Date, we paid to the lenders providing the Exit Revolving Facility an aggregate fee equal to $1.5 million. Interest on the Exit Credit Agreement Loans accrues at an annual rate equal to either (a) LIBOR plus 4.50%, with a minimum LIBOR floor of 2.00% for the Exit Term Loan, or (b) a base rate plus 3.50% per annum in which base rate is equal to the highest of (x) Bank of America's prime rate, (y) the federal funds effective rate plus 0.50% and (z) LIBOR (with minimum LIBOR floor of 2.00%) plus 1.00%. In addition, we are required to pay a 0.75% per annum commitment fee on the average daily unused portion of the Exit Revolving Facility. The entire outstanding principal amount of the Exit Credit Agreement Loans is due on the Exit Maturity Date; provided that on the third anniversary of the Effective Date, we must elect (subject to the absence of events of default under the Exit Credit Agreement) to continue the maturity of the Exit Revolving Facility and must pay a continuation fee of $0.75 million and, on the fourth anniversary of the Effective Date, we must elect (subject to the absence of events of default under the Exit Credit Agreement) to continue the maturity of the Exit Revolving Facility and must pay a second continuation fee of $0.75 million. The Exit Credit Agreement requires quarterly repayments of principal of the Exit Term Loan after the first anniversary of the Effective Date. In the second and third years following the Effective Date, such quarterly payments shall each be in an amount equal to $2.5 million; during the fourth year following the Effective Date, such quarterly payments shall each be in an amount equal to $6.25 million; and for the first three quarters during the fifth year following the Effective Date, such quarterly payments shall each be in an amount equal to $12.5 million, with all remaining outstanding amounts owed in respect of the Exit Term Loan being due and payable on the Exit Maturity Date.

The Exit Credit Agreement Loans are guaranteed by all of our current and future direct and indirect subsidiaries, other than (x) any subsidiary that is prohibited by applicable law from guaranteeing the obligations under the Exit Credit Agreement Loans and/or providing any security therefor without the consent of a state public utilities commission, and (y) the Exit Financing Loan Parties. The Exit Credit Agreement Loans as a whole are secured by liens upon substantially all existing and after-acquired assets of the Exit Financing Loan Parties, with first lien and payment waterfall priority for the Exit Revolving Facility and second lien priority for the Exit Term Loan.

The Exit Credit Agreement contains customary representations, warranties and affirmative covenants. In addition, the Exit Credit Agreement contains restrictive covenants that limit, among other things, the ability of the Exit Financing Loan Parties to incur indebtedness, create liens, engage in mergers, consolidations and other fundamental changes, make investments or loans, engage in transactions with affiliates, pay dividends, make capital expenditures and repurchase capital stock. The Exit Credit Agreement also contains minimum interest coverage and maximum total leverage maintenance covenants, along with a maximum senior leverage covenant measured upon the incurrence of certain types of debt. The Exit Credit Agreement contains certain events of default, including failure to make payments, breaches of covenants and representations, cross defaults to other material indebtedness, unpaid and uninsured judgments, changes of control and bankruptcy events of default. The lenders' commitments to fund amounts under the Exit Credit Agreement are subject to certain customary conditions.

The above summary of the material terms of the Exit Credit Agreement Loans does not purport to be complete and is qualified in its entirety by reference to the text of (i) the Exit Credit Agreement, (ii) the Pledge Agreement, dated as of the Effective Date, made by the pledgors party thereto in favor of Bank of America, N.A., as administrative agent, for the benefit of certain secured parties, (iii) the Security Agreement, dated as of the Effective Date, by and among FairPoint Communications, FairPoint Logistics, our subsidiaries party thereto and Bank of America, N.A., as administrative agent, for the benefit of certain secured parties and (iv) the Continuing Guaranty Agreement, dated as of the Effective Date, made by and among the guarantors party thereto in favor of Bank of America, N.A., as administrative agent, for the benefit of certain secured parties.

Our DIP Facility

In connection with the Chapter 11 Cases, the DIP Borrowers, on October 27, 2009, entered into the DIP Credit Agreement with the DIP Lenders and the DIP Administrative Agent. The DIP Credit Agreement provided for a revolving facility in an aggregate principal amount of up to $75.0 million, of which up to $30.0 million was also available in the form of one or more letters of credit that may be issued to third parties for our account (the “DIP Financing”). Pursuant to an Order of the Bankruptcy Court, dated October 28, 2009 (the “Interim Order”), the DIP Borrowers were authorized to enter into and immediately draw upon the DIP Credit Agreement on an interim basis in an aggregate amount of $20.0 million, pending a final hearing before the Bankruptcy Court. Pursuant to a final order of the Bankruptcy Court, dated March 11, 2010 (the “Final DIP Order”), the DIP Borrowers were permitted access to the total $75.0 million of the DIP Financing, subject to the terms and conditions of the DIP Credit Agreement and related orders of the Bankruptcy Court. As of December 31, 2010 and 2009, we had not borrowed any amounts under the DIP Credit Agreement other than letters of credit totaling $18.7 million and $1.6 million, respectively, that had been issued and were outstanding under the DIP Credit Agreement.

The DIP Financing matured and was repayable in full on the earlier to occur of (i) January 31, 2011, which date could have been extended for up to an additional two months with the consent of the Required Lenders (as defined in the DIP Credit Agreement) for no additional fee, (ii) the Effective Date, (iii) the voluntary reduction by the DIP Borrowers to zero of all commitments to lend under the DIP Credit Agreement, or (iv) the date on which the obligations under the DIP Financing were accelerated by the non-defaulting DIP Lenders holding a majority of the aggregate principal amount of the outstanding loans and letters of credit plus unutilized commitments under the DIP Financing upon the occurrence and during the continuance of certain events of default.

On the Effective Date, the DIP Credit Agreement was converted into the new $75.0 million Exit Revolving Facility with a five-year term.

Our Pre-Petition Credit Facility

Our $2,030.0 million Pre-Petition Credit Facility consisted of a non-amortizing revolving facility in an aggregate principal amount of $200.0 million, a senior secured term loan A facility in an aggregate principal amount of $500.0 million (the “Term Loan A Facility”), a senior secured term loan B facility in the aggregate principal amount of $1,130.0 million (the “Term Loan B Facility” and, together with the Term Loan A Facility, the “Term Loan”) and a delayed draw term loan facility in an aggregate principal amount of $200.0 million (the “Delayed Draw Term Loan”). Spinco drew $1,160.0 million under the Term Loan immediately prior to being spun off by Verizon, and then FairPoint drew $470.0 million under the Term Loan and $5.5 million under the Delayed Draw Term Loan concurrently with the closing of the Merger.

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

On October 5, 2008, the administrative agent under our Pre-Petition Credit Facility (the “administrative agent”) filed for bankruptcy. The administrative agent accounted for thirty percent of the loan commitments under the Revolving Credit Facility. On January 21, 2009, we entered into an amendment to our Pre-Petition Credit Facility (the “Pre-Petition Credit Facility Amendment”) under which, among other things, the administrative agent resigned and was replaced by a new administrative agent. In addition, the resigning administrative agent’s undrawn commitments under the Revolving Credit Facility, totaling $30.0 million, were terminated and were thus no longer available to us.

The Revolving Credit Facility had a swingline subfacility in the amount of $10.0 million and a letter of credit subfacility in the amount of $30.0 million, which allowed for issuances of standby letters of credit for our account. Our Pre-Petition Credit Facility also permitted interest rate and currency exchange swaps and similar arrangements that we may have entered into with the lenders under our Pre-Petition Credit Facility and/or their affiliates.

As of December 31, 2010, we had borrowed $155.5 million under the Revolving Credit Facility and there were no outstanding letters of credit. Upon the event of default under the Pre-Petition Credit Facility relating to the Chapter 11 Cases described herein, the commitments under the Revolving Credit Facility were automatically terminated. Accordingly, as of December 31, 2010, no funds remained available under the Revolving Credit Facility.

The Term Loan B Facility and the Delayed Draw Term Loan would have matured in March 2015 and the Revolving Credit Facility and the Term Loan A Facility would have matured in March 2014. Each of the Term Loan A Facility, the Term Loan B Facility and the Delayed Draw Term Loan were repayable in quarterly installments in the manner set forth in our Pre-Petition Credit Facility.

Borrowings under our Pre-Petition Credit Facility bore interest at variable interest rates. Interest rates for borrowings under our Pre-Petition Credit Facility were, at our option, for the Revolving Credit Facility and for the Term Loans, at either (a) the Eurodollar rate, as defined in the Pre-Petition Credit Facility, plus an applicable margin or (b) the base rate, as defined in the Pre-Petition Credit Facility, plus an applicable margin.

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

Scheduled amortization payments on our Pre-Petition Credit Facility began in 2009. No principal payments were due on the Pre-Petition Notes prior to their maturity. Following the filing of the Chapter 11 Cases, we did not make any additional principal or interest payments on our pre-petition debt.

For the year ended December 31, 2009, we repaid $8.4 million of principal under the Term Loan A Facility and $6.1 million of principal under the Term Loan B Facility.

On the Effective Date, the Pre-Petition Credit Facility and all obligations thereunder (except that the Pre-Petition Credit Facility continues in effect solely for the purposes of allowing creditors under the Pre-Petition Credit Facility to receive distributions under the Plan and to preserve certain rights of the administrative agent) were terminated.

Our Pre-Petition Notes

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

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

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

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

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

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

Following the filing of the Chapter 11 Cases, we made no payments on our pre-petition debt. During the year ended December 31, 2009, we repurchased $19.9 million in aggregate principal amount of the Old Notes for an aggregate purchase price of $6.3 million in cash. In total, including amounts repaid under the Term Loan A Facility and Term Loan B Facility, we retired $34.5 million of outstanding debt during the year ended December 31, 2009.

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

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

On the Effective Date, all outstanding obligations under the Pre-Petition Notes and the indentures governing the Pre-Petition Notes were terminated.

Other Pre-Petition Agreements

As a condition to the approval of the Merger and related transactions by state regulatory authorities we agreed to make certain capital expenditures following the completion of the Merger. The Merger Orders have been modified by Regulatory Settlements agreed to with representatives for each of Maine, New Hampshire and Vermont, and approved by the applicable regulatory authorities in Maine, New Hampshire and Vermont, and approved by the Bankruptcy Court as part of the Plan. For a description of these capital expenditure requirements, see "Item 1. — Business — Regulatory Environment — State Regulation — Regulatory Conditions to the Merger, as Modified in Connection with the Plan."

We are required to make certain capital expenditures pursuant to the Regulatory Settlements. For more information regarding the Regulatory Settlements, see "Item 1. Business — State Regulation - Regulatory Conditions to the Merger, as Modified in Connection with the Plan."

On January 30, 2009, we entered into the Transition Agreement with Verizon in connection with the Cutover of certain back-office systems, as contemplated by the Transition Services Agreement. The Transition Services Agreement and related agreements had required us to make payments totaling approximately $45.4 million to Verizon in the first quarter of 2009, including a one-time fee of $34.0 million due at Cutover, with the balance related to the purchase of certain Internet access hardware. The settlement set forth in the Transition Agreement resulted in a $22.7 million improvement in our cash flow for the year ended December 31, 2009.

Off-Balance Sheet Arrangements

We do not have any off-balance sheet arrangements.

Summary of Contractual Obligations

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

The following table discloses aggregate information about our contractual obligations as of December 31, 2010 and the periods in which payments are due and does not give effect to the Plan transactions which occurred on the Effective Date:

	Payments due by period				
	Total	Less than 1 year	1-3 years	3-5 years	More than 5 years
			(Dollars in thousands)		
Contractual obligations:					
Long-term debt, including current maturities (a)	$2,520,959	$ 58,725	$ 351,600	$1,560,638	$549,996
Interest payments on long-term debt obligations (b)(c)	518,034	135,355	254,150	128,529	—
Capital lease obligations	6,669	1,893	3,178	1,598	—
Operating leases	38,229	10,442	16,292	7,672	3,823
Total obligations	$ 3,083,891	$ 206,415	$625,220	$ 1,698,437	$ 553,819

(a) Includes $550.0 million of the Pre-Petition Notes. Long-term debt maturities represent the normal contractual payment schedule. Following the filing of the Chapter 11 Cases, we did not make any payments on our pre-petition debt. All obligations under the Pre-Petition Credit Facility and the Pre-Petition Notes have been classified as liabilities subject to compromise in the consolidated financial statements as of December 31, 2010 and 2009. See note 9 to the consolidated financial statements for more information.

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

(c) Interest payments on long-term debt represent the normal contractual interest payment schedule, based on default rates as defined in the Pre-Petition Credit Facility. Following the filing of the Chapter 11 Cases, we did not make any payments on our pre-petition debt.

On the Effective Date our Pre-Petition Credit Facility and our DIP Facility were terminated and we entered into the Exit Credit Agreement. Our long-term debt obligations were reduced to $1.0 billion. In addition, as of the Effective Date we had letters of credit totaling $18.7 million outstanding under the Exit Credit Facility. See "Part 1 — Item 1. Business — Emergence from Chapter 11 Proceedings — Exit Credit Agreement" for details.

The following table discloses aggregate information about our derivative financial instruments as of December 31, 2010, the source of carrying value of these instruments and their maturities.

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

(1) Upon filing for Chapter 11 bankruptcy protection, the derivative financial instruments were terminated by the counterparties. Accordingly, the carrying value of the Swaps at December 31, 2010 represents the termination value of the Swaps as determined by the respective counterparties following the event of default described herein. See note 8 to the consolidated financial statements for more information.

(2) The Swaps have been classified as liabilities subject to compromise in the consolidated financial statements. See note 8 to the consolidated financial statements for more information.

Critical Accounting Policies

Our critical accounting policies are as follows:

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

Revenue Recognition. We recognize service revenues based upon usage of our local exchange network and facilities and contract fees. Fixed fees for voice services, Internet services and certain other services are recognized in the month the service is provided. Revenue from other services that are not fixed fee or that exceed contracted amounts is recognized when those services are provided. Non-recurring customer activation fees, along with the related costs up to, but not exceeding, the activation fees are deferred and amortized over the customer relationship period. SQI penalties and certain PAP penalties are settled by crediting customer accounts and are recorded as a reduction to revenue. We make estimated adjustments, as necessary, to revenue or accounts receivable for billing errors, including certain disputed amounts. At December 31, 2010 and 2009, we recorded revenue reserves of $19.6 million and $22.6 million, respectively. See note 3(b) to the consolidated financial statements for further information.

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

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

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

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

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

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

Goodwill was $595.1 million at December 31, 2010. We have recorded intangible assets related to the acquired companies' customer relationships and trade name of $251.3 million as of December 31, 2010. As of December 31, 2010, there was $62.1 million of accumulated amortization recorded. The customer relationships are being amortized over a weighted average life of approximately 9.7 years. The trade name has an indefinite life and is, therefore, not amortized. The intangible assets are included in intangible assets on our consolidated balance sheet.

We are required to perform an impairment review of goodwill and non-amortizable intangible assets as required by the Intangibles-Goodwill and Other Topic of the ASC annually or when impairment indicators are noted. Goodwill impairment is determined using a two-step process. Step one compares the estimated fair value of our single wireline reporting unit (calculated using the market approach and the income approach) to its carrying amount, including goodwill. The market approach compares our fair value, as measured by our market capitalization, to our carrying amount, which represents our shareholders' equity balance. As of December 31, 2010, shareholders' deficit totaled $587.4 million. The income approach compares our fair value, as measured by discounted expected future cash flows, to our carrying amount. If our carrying amount exceeds our estimated fair value, there is a potential impairment and step two must be performed.

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

We performed step one of our annual goodwill impairment assessment as of October 1, 2010 and concluded that there was no indication of impairment at that time.

Our only non-amortizable intangible asset is the trade name of Legacy FairPoint acquired in the Merger. Consistent with the valuation methodology used to value the trade name at the Merger, we assess the fair value of the trade name based on the relief from royalty method. If the carrying amount of our trade name exceeds its estimated fair value, the asset is considered impaired. We performed our annual non-amortizable intangible asset impairment assessment as of October 1, 2010 and concluded that there was no indication of impairment at that time. As of December 31, 2010, as a result of changes to our financial projections related to the Chapter 11 Cases, we determined that a possible impairment of our non-amortizable intangible assets was indicated. We performed an interim non-amortizable intangible asset impairment assessment as of December 31, 2010 and determined that our trade name was not impaired.

For our non-amortizable intangible asset impairment assessments at December 31, and October 1, 2010, we made certain assumptions including an estimated royalty rate, a long-term growth rate, an effective tax rate and a discount rate, and applied these assumptions to projected future cash flows of our consolidated FairPoint business, exclusive of cash flows associated with wholesale revenues as these revenues are not generated through brand recognition. Changes in one or more of these assumptions may have resulted in the recognition of an impairment loss.

We determined as of December 31, 2009 that a possible impairment of long-lived assets was indicated by the filing of the Chapter 11 Cases as well as a significant decline in the fair value of our common stock. In addition, as of December 31, 2010, as a result of changes to our financial projections related to the Chapter 11 Cases, we determined that a possible impairment of long-lived assets was indicated. In accordance with the Property, Plant, and Equipment Topic of the ASC, we performed recoverability tests, based on undiscounted projected future cash flows associated with our long-lived assets, at each of these dates and determined that long-lived assets were not impaired at December 31, 2010 or 2009.

While no impairment charges resulted from the analyses performed at December 31, and October 1, 2010 and December 31, 2009, asset values may be adjusted in the future due to the application of fresh start accounting upon our emergence from Chapter 11.

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

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

New Accounting Standards

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

In October 2009, the FASB issued an ASU regarding revenue recognition for multiple deliverable arrangements. This method allows a vendor to allocate revenue in an arrangement using its best estimate of selling price if neither vendor specific objective evidence nor third party evidence of selling price exists. Accordingly, the residual method of revenue allocation will no longer be permissible. This ASU must be adopted no later than the beginning of the first fiscal year beginning on or after June 15, 2010. It is not yet known what impact this ASU will have on our financial statements.

Effective 2011, we will adopt the ASU regarding when to perform Step 2 of the goodwill impairment test for reporting units with zero or negative carrying amounts. This ASU modifies Step 1 of the goodwill impairment test for reporting units with zero or negative carrying amounts. For those reporting units, an entity is required to perform Step 2 of the goodwill impairment test if it is more likely than not that a goodwill impairment exists. In determining whether it is more likely than not that a goodwill impairment exists, an entity should consider whether there are any adverse qualitative factors indicating an impairment may exist. The qualitative factors are consistent with the existing guidance, which requires that goodwill of a reporting unit be tested for impairment between annual tests if an event occurs or circumstances change that would more likely than not reduce the fair value of a reporting unit below its carrying amount. For public entities, the amendments in this ASU are effective for fiscal year, and interim periods within those years, beginning after December 15, 2010. Early adoption is not permitted. It is not yet known what impact this ASU will have on our financial statements.

Inflation

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

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

As of December 31, 2010, we had total debt of $2,521.0 million, consisting of both fixed rate and variable rate debt with interest rates ranging from 6.750% to 13.125% per annum, including applicable margins. As of December 31, 2010, the fair value of our debt was approximately $1,539.7 million. Our Term Loan A Facility and Revolving Credit Facility mature in 2014, our Term Loan B Facility and Delayed Draw Term Loan mature in 2015 and the Pre-Petition Notes mature in 2018.

On the Effective Date the Pre-Petition Credit Facility and DIP Facility were terminated, and the Exit Borrowers entered into the Exit Credit Agreement. Our $1,075.0 million Exit Credit Agreement consists of the Exit Revolving Facility and the Exit Term Loans. We drew the full $1,000.0 million under the Exit Term Loans immediately upon emergence on the Effective Date. The Exit Revolving Loans include a $30.0 million sublimit available for the issuance of letters of credit. Letters of credit outstanding under the DIP Credit Agreement on the Effective Date were rolled into the Exit Credit Agreement. As of the Effective Date, we had approximately $1,000.0 million of total debt outstanding. In addition, as of the Effective Date, we had $56.3 million, net of outstanding letters of credit, available for additional borrowing under our Exit Revolving Loan. Interest payments on the Exit Term Loan are subject to a LIBOR floor of 2.00%. While LIBOR remains below 2.00% we will incur interest costs above market rates.

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

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

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

We are also exposed to market risk from changes in the fair value of our pension plan assets. For the year ended December 31, 2010, the actual gain on the pension plan assets was approximately 11.2%. Net periodic benefit cost for 2010 assumes a weighted average annualized expected return on plan assets of approximately 8.3%. Should our actual return on plan assets become significantly lower than our expected return assumption, our net periodic benefit cost may increase in future periods and we may be required to contribute additional funds to our pension plans.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

INDEX TO FINANCIAL STATEMENTS

Report of Management on Internal Control Over Financial Reporting

We, the management of FairPoint Communications, Inc., are responsible for establishing and maintaining adequate internal control over financial reporting of the Company. Management has evaluated internal control over financial reporting of the Company using the criteria for effective internal control established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission.

Based on such evaluation, management determined that the Company's internal control over financial reporting was not effective as of December 31, 2010 because the following material weaknesses in internal control over financial reporting existed during 2010:

1. Our information technology controls were not adequate. Change management processes were not consistently followed to ensure all changes were appropriately approved. Also, access to our information systems was not appropriately restricted.
2. Our management oversight and review procedures designed to monitor the accuracy of period-end accounting activities were ineffective. Specifically, our account reconciliation processes were not adequate to properly identify and resolve discrepancies between our billing system and our general ledger in a timely manner. In addition, project accounting controls were not adequate to ensure charges to capital projects were appropriate or that projects were closed in a timely manner. Also, procedures for the review of our income tax provision and supporting schedules were not adequate to identify and correct errors in a timely manner.

/s/ Paul H. Sunu

Paul H. Sunu
Chief Executive Officer

/s/ Ajay Sabherwal

Ajay Sabherwal
Executive Vice President and Chief Financial Officer

Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders of FairPoint Communications, Inc.

We have audited the accompanying consolidated balance sheets of FairPoint Communications, Inc. (Debtors-in-Possession) (the "Company") as of December 31, 2010 and 2009, and the related consolidated statements of operations, stockholders' deficit, comprehensive loss and cash flows for each of the three years in the period ended December 31, 2010. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of the Company's internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Company at December 31, 2010 and 2009, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2010, in conformity with U.S. generally accepted accounting principles.

/s/ Ernst & Young LLP

Charlotte, North Carolina
March 31, 2011

FAIRPOINT COMMUNICATIONS, INC. AND SUBSIDIARIES
(Debtors-In-Possession)
Consolidated Balance Sheets
December 31, 2010 and 2009
(in thousands, except share data)

	2010	2009
Assets		
Current assets:		
Cash	$ 105,497	$ 109,355
Restricted cash	2,420	2,558
Accounts receivable, net	125,170	154,095
Materials and supplies	22,193	18,884
Prepaid expenses	18,841	15,198
Other current assets	6,092	8,844
Deferred income tax, net	31,400	75,713
Total current assets	**311,613**	**384,647**
Property, plant, and equipment, net	1,859,700	1,950,435
Goodwill	595,120	595,120
Intangibles assets, net	189,247	211,819
Prepaid pension asset	2,960	8,808
Debt issue costs, net	119	680
Restricted cash	1,678	1,478
Other assets	13,357	19,135
Total assets	**$ 2,973,794**	**$ 3,172,122**
Liabilities and Stockholders' Deficit		
Liabilities not subject to compromise:		
Current portion of capital lease obligations	$ 1,321	$ —
Accounts payable	66,557	61,681
Accrued interest payable	3	36
Other accrued liabilities	63,279	44,004
Total current liabilities	**131,160**	**105,721**
Capital lease obligations	3,943	—
Accrued pension obligation	92,246	51,438
Employee benefit obligations	344,463	261,420
Deferred income taxes	67,381	115,742
Unamortized investment tax credits	4,310	4,788
Other long-term liabilities	12,398	15,100
Total long-term liabilities	**524,741**	**448,488**
Total liabilities not subject to compromise	**655,901**	**554,209**
Liabilities subject to compromise	2,905,311	2,836,340
Total liabilities	**3,561,212**	**3,390,549**
Stockholders' deficit:		
Common stock, $0.01 par value, 200,000,000 shares authorized, issued and outstanding 89,440,334 and 90,002,026 shares at December 31, 2010 and 2009, respectively	894	900
Additional paid-in capital	725,786	725,312
Retained deficit	(1,101,294)	(819,715)
Accumulated other comprehensive loss	(212,804)	(124,924)
Total stockholders' deficit	**(587,418)**	**(218,427)**
Total liabilities and stockholders' deficit	**$ 2,973,794**	**$ 3,172,122**

See accompanying notes to consolidated financial statements.

FAIRPOINT COMMUNICATIONS, INC. AND SUBSIDIARIES
(Debtors-In-Possession)
Consolidated Statements of Operations
Years ended December 31, 2010, 2009 and 2008
(in thousands, except per share data)

	2010	2009	2008
Revenues	**$ 1,070,986**	**$ 1,119,090**	**$ 1,274,619**
Operating expenses:			
Cost of services and sales, excluding depreciation and amortization	525,728	515,394	576,786
Selling, general and administrative expense, excluding depreciation and amortization	365,373	417,512	384,388
Depreciation and amortization	289,824	275,334	255,032
Total operating expenses	**1,180,925**	**1,208,240**	**1,216,206**
Income (loss) from operations	**(109,939)**	**(89,150)**	**58,413**
Other income (expense):			
Interest expense	(140,896)	(204,919)	(162,040)
Gain (loss) on derivative instruments	—	12,320	(11,800)
Gain on early retirement of debt	—	12,357	—
Other income, net	2,715	2,000	3,494
Total other expense	(138,181)	(178,242)	(170,346)
Loss before reorganization items and income taxes	**(248,120)**	**(267,392)**	**(111,933)**
Reorganization items	(41,120)	(53,018)	—
Loss before income taxes	**(289,240)**	**(320,410)**	**(111,933)**
Income tax benefit	7,661	79,014	43,408
Net loss	**$ (281,579)**	**$ (241,396)**	**$ (68,525)**
Weighted average shares outstanding:			
Basic	89,424	89,271	80,443
Diluted	89,424	89,271	80,443
Loss per share:			
Basic	$ (3.15)	$ (2.70)	$ (0.85)
Diluted	(3.15)	(2.70)	(0.85)

See accompanying notes to consolidated financial statements.

FAIRPOINT COMMUNICATIONS, INC. AND SUBSIDIARIES
(Debtors-In-Possession)
Consolidated Statements of Stockholders' Equity (Deficit)
Years ended December 31, 2010, 2009 and 2008
(in thousands)

	Common Stock		Additional paid-in capital	Retained earnings (deficit)	Accumulated other comprehensive loss	Total stockholders' equity (deficit)
	Shares	Amount				
Balance at December 31, 2007	53,761	$ 538	$ 484,383	$ 634,241	$ —	$1,119,162
Net loss	—	—	—	(68,525)	—	(68,525)
Acquisition of FairPoint	35,265	352	315,938	—	—	316,290
Exercise of restricted units	6	—	—	—	—	—
Issuance of restricted shares	50	—	—	—	—	—
Restricted stock cancelled for withholding tax	(15)	—	—	—	—	—
Forfeiture of restricted shares	(71)	—	—	—	—	—
Stock based compensation expense	—	—	4,408	—	—	4,408
Dividends declared	—	—	(69,010)	—	—	(69,010)
Return of capital to Verizon	—	—	—	(1,160,000)	—	(1,160,000)
Issuance of bonds to Verizon	—	—	—	(539,831)	—	(539,831)
Contributions by Verizon	—	—	—	381,890	—	381,890
Net liabilities contributed back to Verizon	—	—	—	124,439	—	124,439
Employee benefit adjustment to comprehensive income	—	—	—	49,467	(134,504)	(85,037)
Balance at December 31, 2008	88,996	$ 890	$ 735,719	$ (578,319)	$ (134,504)	$ 23,786
Net loss				(241,396)		(241,396)
Issuance of 2008 Interim Awards	502	5	(5)	—	—	—
Issuance of restricted shares	524	5	(5)	—	—	—
Restricted stock cancelled for withholding tax	(20)	—	—	—	—	—
Restricted units cancelled for withholding tax	—	—	(430)	—	—	(430)
Stock based compensation expense	—	—	2,052	—	—	2,052
Net assets contributed back to Verizon	—	—	(12,019)	—	—	(12,019)
Employee benefit adjustment to comprehensive income	—	—	—	—	9,580	9,580
Balance at December 31, 2009	90,002	$ 900	$ 725,312	$ (819,715)	$ (124,924)	$ (218,427)
Net loss				(281,579)		(281,579)
Restricted stock cancelled for withholding tax	(13)	—	—	—	—	—
Forfeiture of restricted shares	(549)	(6)	6	—	—	—
Stock based compensation expense	—	—	468	—	—	468
Employee benefit adjustment to comprehensive income	—	—	—	—	(87,880)	(87,880)
Balance at December 31, 2010	89,440	$ 894	$ 725,786	$(1,101,294)	$ (212,804)	$ (587,418)

See accompanying notes to consolidated financial statements.

Table of Contents

FAIRPOINT COMMUNICATIONS, INC. AND SUBSIDIARIES
(Debtors-In-Possession)
Consolidated Statements of Comprehensive Loss
Years ended December 31, 2010, 2009 and 2008
(in thousands)

	2010	2009	2008
Net loss	**$(281,579)**	**$ (241,396)**	**$ (68,525)**
Other comprehensive (loss) income, net of taxes:			
Defined benefit pension and post-retirement plans (net of $4.6 million tax expense, $5.4 million tax expense and $56.4 million tax benefit, respectively)	(87,880)	9,580	(134,504)
Total other comprehensive (loss) income	**(87,880)**	**9,580**	**(134,504)**
Comprehensive loss	**$ (369,459)**	**$(231,816)**	**$ (203,029)**

See accompanying notes to consolidated financial statements.

FAIRPOINT COMMUNICATIONS, INC. AND SUBSIDIARIES
(Debtors-In-Possession)
Consolidated Statements of Cash Flows
Years ended December 31, 2010, 2009 and 2008
(in thousands)

	2010	2009	2008
Cash flows from operating activities:			
Net loss	$ (281,579)	$ (241,396)	$ (68,525)
Adjustments to reconcile net income to net cash provided by operating activities excluding impact of acquisitions:			
Deferred income taxes	(7,915)	(78,722)	(33,466)
Provision for uncollectible revenue	20,525	48,402	25,234
Depreciation and amortization	289,824	275,334	255,032
Non-cash interest expense	—	31,137	—
Post-retirement expenses	33,216	34,151	37,782
Pension expenses	10,017	24,274	906
(Gain) loss on derivative instruments	—	(12,320)	11,800
Gain on early retirement of debt, excluding cash fees	—	(12,477)	—
Loss on abandoned projects	15,132	—	—
Non-cash reorganization items	(20,004)	43,964	—
Other non cash items	4,045	4,468	(20,577)
Changes in assets and liabilities arising from operations:			
Accounts receivable	12,706	(24,799)	(34,693)
Prepaid and other assets	(6,834)	19,063	(12,713)
Accounts payable and accrued liabilities	(10,802)	(12,435)	(110,264)
Accrued interest payable	137,111	61,312	18,562
Other assets and liabilities, net	(3,816)	(9,633)	4,648
Other	—	—	(16,221)
Total adjustments	473,205	391,719	126,030
Net cash provided by operating activities	**191,626**	**150,323**	**57,505**
Cash flows from investing activities:			
Acquired cash balance, net	—	—	11,401
Net capital additions	(197,795)	(178,752)	(296,992)
Net proceeds from sales of investments and other assets	527	1,361	2,259
Net cash used in investing activities	**(197,268)**	**(177,391)**	**(283,332)**
Cash flows from financing activities:			
Loan origination costs	(1,475)	(3,046)	(29,238)
Proceeds from issuance of long-term debt	5,513	50,000	1,930,000
Repayments of long-term debt	—	(20,848)	(687,491)
Contributions from Verizon	—	—	373,590
Restricted cash	(62)	65,114	(68,503)
Repayment of capital lease obligations	(2,192)	(2,126)	(2,247)
Dividends paid to stockholders	—	(22,996)	(1,219,959)
Net cash provided by financing activities	**1,784**	**66,098**	**296,152**
Net increase (decrease) in cash	**(3,858)**	**39,030**	**70,325**
Cash, beginning of period	109,355	70,325	—
Cash, end of period	**$ 105,497**	**$ 109,355**	**$ 70,325**
Supplemental disclosure of cash flow information:			
Interest paid, net of capitalized interest	$ 1,005	$ 106,861	$ 124,721
Income taxes paid, net of refunds	361	(563)	(9,313)
Non-cash equity consideration	—	—	316,290
Non-cash issuance of senior notes	—	18,911	551,000
Capital additions included in accounts payable or liabilities subject to compromise at period-end	1,961	31,621	—
Reorganization costs paid	41,699	1,182	—

See accompanying notes to consolidated financial statements.

FairPoint Communications, Inc. and Subsidiaries
(DEBTORS-IN-POSSESSION)
Notes to Consolidated Financial Statements

Except as otherwise required by the context, references in notes to the consolidated financial statements to:

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

(1) ORGANIZATION, PRINCIPLES OF CONSOLIDATION & LIQUIDITY; CHAPTER 11 CASES

(a) Organization

FairPoint is a leading provider of communications services in rural and small urban communities, primarily in northern New England, offering an array of services, including high speed data ("HSD"), Internet access, television and broadband product offerings, to both residential and business customers. FairPoint operates in 18 states with approximately 1.4 million access line equivalents (including voice access lines and HSD, which include digital subscriber lines ("DSL"), wireless broadband, cable modem and fiber-to-the-premises) as of December 31, 2010.

(b) Principles of Consolidation and Basis of Presentation

On March 31, 2008, FairPoint completed the acquisition of Spinco, pursuant to which Spinco merged with and into FairPoint, with FairPoint continuing as the surviving corporation for legal purposes. Spinco was a wholly-owned subsidiary of Verizon and prior to the Merger the Verizon Group transferred certain specified assets and liabilities of the local exchange businesses of Verizon New England in Maine, New Hampshire and Vermont and the customers of the related voice and Internet service provider businesses in those states to subsidiaries of Spinco. The Merger was accounted for as a "reverse acquisition" of Legacy FairPoint by Spinco under the purchase method of accounting because Verizon stockholders owned a majority of the shares of the consolidated Company following the Merger and, therefore, Spinco is treated as the acquirer for accounting purposes. The financial statements reflect the transaction as if Spinco had issued consideration to FairPoint shareholders. As a result, for the year ended December 31, 2008, the statement of operations and the financial information derived from the statement of operations in this Annual Report reflect the consolidated financial results of the Company by including the financial results of the Verizon New England business in Maine, New Hampshire and Verizon Group related long distance and Internet service provider business in those states prior to the Merger. Verizon Northern New England business for the three months ended March 31, 2008 and the combined financial results of Spinco and Legacy FairPoint for the nine months ended December 31, 2008. The statement of operations and the financial information derived from the statement of operations for all periods prior to April 1, 2008 in this Annual Report reflect the actual results of the Verizon Northern New England business for such periods. The balance sheet and financial information derived from the balance sheet in this Annual

Report reflect the consolidated assets and liabilities of Legacy FairPoint and Spinco at December 31, 2010 and 2009. Certain assets and liabilities of the Verizon Northern New England business (principally related to pension, other post-employment benefits, and associated deferred taxes) were not distributed to Spinco prior to the Merger and for accounting purposes were effectively contributed back to Verizon. The assets and liabilities of the Verizon Northern New England business that were effectively contributed back to Verizon are reflected as net liabilities contributed back to Verizon on the statement of stockholders' equity contained herein. The statement of operations in this Annual Report may not be indicative of the Company's future results.

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

Historical Verizon Northern New England business

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

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

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

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

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

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

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

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

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

Financial Reporting in Reorganization

On October 26, 2009, the Company and substantially all of its direct and indirect subsidiaries (collectively, the "Debtors") filed voluntary petitions for relief under Chapter 11 of title 11 of the United States Code (the "Bankruptcy Code" or "Chapter 11") in the United States Bankruptcy Court for the Southern District of New York (the "Bankruptcy Court"). The cases are being jointly administered under the caption *In re FairPoint Communications, Inc.*, Case No. 09-16335 (the "Chapter 11 Cases"). On January 13, 2011, the bankruptcy judge confirmed the Plan and on January 24, 2011 (the "Effective Date") the Company emerged from Chapter 11 protection.

The Company has applied the Reorganizations Topic of the Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") effective as of the Petition Date. See note 2.

(2) REORGANIZATION

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

The accompanying consolidated financial statements have been prepared in accordance with the Reorganizations Topic of the ASC. All pre-petition liabilities subject to compromise have been segregated in the consolidated balance sheets and classified as liabilities subject to compromise at the estimated amount of the allowable claims. Liabilities not subject to compromise are separately classified as current or noncurrent. The Company's consolidated statements of operations for the years ended December 31, 2010 and 2009 include the results of operations during the Chapter 11 Cases. As such, any revenues, expenses, and gains and losses realized or incurred that are directly related to the bankruptcy case are reported separately as reorganization items due to the bankruptcy.

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

Reorganization Items

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

	Year ended December 31,	
	2010	2009
Professional fees (a)	$ (59,870)	$ (8,365)
Success bonus (b)	(1,111)	(689)
Non-cash allowed claim adjustments (c)	(977)	(43,964)
Cancellation of debt income, net (d)	20,838	—
Total reorganization items	$ (41,120)	$ (53,018)

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

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

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

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

Liabilities Subject to Compromise

Liabilities subject to compromise refer to liabilities incurred prior to October 26, 2009 (the “Petition Date”) for which the Company has not received approval from the Bankruptcy Court to pay or otherwise honor. The amounts of the various categories of liabilities that are subject to compromise are set forth below. These amounts represent the estimates of known or potential pre-Petition Date claims that are likely to be resolved in connection with the Chapter 11 Cases. Such claims remain subject to future adjustments. Adjustments may result from negotiations, actions of the Bankruptcy Court, rejection of the executory contracts and unexpired leases, the determination of the value securing claims, proofs of claim or other events.

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

	2010	2009
Senior secured credit facility	$1,970,963	$1,965,450
Senior Notes	549,996	549,996
Interest rate swap	98,833	98,833
Accrued interest	211,550	74,406
Accounts payable	57,640	93,049
Other accrued liabilities	16,129	42,461
Capital lease obligations	—	7,627
Other long-term liabilities	200	787
Employee benefit obligations	—	3,731
Liabilities subject to compromise	$2,905,311	$ 2,836,340

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

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

Magnitude of Potential Claims

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

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

As of March 22, 2011, claims totaling $4.9 billion have been filed with the Bankruptcy Court against the Company, $3.8 billion of which have been settled. In light of the Company's emergence from bankruptcy on the Effective Date, the Company does not anticipate a significant number of new and amended claims to be filed in the future. The Company has identified, and expects to continue to identify, many claims that the Company believes should be disallowed by the Bankruptcy Court because they are duplicative, have been later amended or superseded, are without merit or are overstated or for other reasons. As of March 22, 2011, the Bankruptcy Court has disallowed $1.1 billion of these claims and has not yet ruled on the Company's other objections to claims, the disputed portions of which aggregate to an additional $7.0 million. Additionally, $10.4 million of these claims have been withdrawn by the respective creditors. The Company expects to continue to file objections in the future. Because the process of analyzing and objecting to claims will be ongoing, the amount of disallowed claims may increase significantly in the future.

On the Effective Date, the Company distributed cash, entered into the Exit Credit Agreement, and issued shares of New Common Stock and warrants to purchase shares of New Common Stock to satisfy $2.8 billion of claims. In addition, on the Effective Date, the Company established a cash reserve of $77.9 million and reserved 72,754 shares of New Common Stock and warrants to purchase 124,012 shares of New Common Stock for satisfaction of pending claims. Subsequent to the Effective Date, the Company has made additional cash distributions from its reserve to satisfy claims as they are resolved. As a result of these distributions, the cash reserve as of March 22, 2011, has been decreased to $64.6 million. As of March 22, 2011, 72,754 shares of New Common Stock and warrants to purchase 124,012 shares of New Common Stock remain to be distributed in satisfaction of pending claims.

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

(3) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Use of Estimates

The accompanying consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles ("GAAP"), which require management to make estimates and assumptions that affect reported amounts and disclosures.

Actual results could differ from those estimates. The consolidated financial statements reflect all adjustments that are necessary for a fair presentation of results of operations and financial condition for the periods shown, including normal recurring accruals and other items. The Company has reclassified certain prior period amounts in the consolidated financial statements to be consistent with current period presentation. These reclassifications were made to correct the classification of performance assurance plans ("PAP") penalties from selling, general and administrative expenses to contra-revenue and to correct the allocation of certain employee and general computer expenses between cost of services and selling, general and administrative expenses. Correction of these classification errors resulted in a decrease of $7.7 million to revenue, an increase of $0.5 million to cost of services, and a decrease of $8.1 million to selling, general and administrative expenses for the year ended December 31, 2009. Correction of these classification errors had no impact on loss from operations or net loss.

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

(b) Revenue Recognition

Revenues are recognized as services are rendered and are primarily derived from the usage of the Company's networks and facilities or under revenue-sharing arrangements with other communications carriers. Revenues are primarily derived from: access, pooling, voice services, Universal Service Fund receipts, Internet and broadband services, and other miscellaneous services. Local access charges are billed to local end users under tariffs approved by each state's Public Utilities Commission ("PUC"). Access revenues are derived for the intrastate jurisdiction by billing access charges to interexchange carriers and to other local exchange carriers ("LECs"). These charges are billed based on toll or access tariffs approved by the local state's PUC. Access charges for the interstate jurisdiction are billed in accordance with tariffs filed by the National Exchange Carrier Association or by the individual company and approved by the Federal Communications Commission (the "FCC").

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

Long-distance retail and wholesale services are usage sensitive and are billed in arrears and recognized when earned. Internet and data services revenues are substantially all recurring revenues and are billed one month in advance and deferred until earned. As of December 31, 2010 and 2009, unearned revenue of $15.3 million and $13.2 million, respectively, was included in other accrued liabilities on the consolidated balance sheet. The majority of the Company's miscellaneous revenue is provided from billing and collection and directory services. The Company earns revenue from billing and collecting charges for toll calls on behalf of interexchange carriers. The interexchange carrier pays a certain rate per each minute billed by the Company. The Company recognizes revenue from billing and collection services when the services are provided.

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

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

SQI penalties and certain PAP penalties are settled by crediting customer accounts and recorded as a reduction to revenue.

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

Management makes estimated adjustments, as necessary, to revenue or accounts receivable for billing errors, including certain disputed amounts. At December 31, 2010 and 2009, the Company recorded revenue reserves of $19.6 million and $22.6 million, respectively.

(c) Maintenance and Repairs

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

(d) Cash and Cash Equivalents

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

(e) Restricted Cash

As of March 31, 2008, the closing date of the Merger, the Company had $80.9 million of restricted cash (the "Merger Restricted Cash"). The Company is required to use these funds to (i) pay for the removal of dual poles in Vermont, which is estimated to cost $6.7 million, (ii) pay for certain service quality improvements under a performance enhancement plan in Vermont totaling $25.0 million, and (iii) pay for network improvements in New Hampshire totaling $49.2 million (the "New Hampshire Funds"). During the three months ended June 30, 2009, the Company requested that the New Hampshire Funds be made available for general working capital purposes. By letter dated May 12, 2009, the New Hampshire Public Utilities Commission (the "NHPUC") approved the Company's request, conditioned upon the Company's commitment to invest funds on certain NHPUC approved network improvements in New Hampshire on the following schedule: $15.0 million by the end of 2010, an additional $20.0 million by the end of 2011 and an additional $30.0 million by the end of 2012 (the "NH Investment Commitment"). The NH Investment Commitment is inclusive of the $50.0 million previously required by the NHPUC. In addition, upon NHPUC approval of the Regulatory Settlement for New Hampshire (the "New Hampshire Regulatory Settlement"), the NH Investment Commitment was reduced by $10.0 million, with such funds being reallocated to recurring maintenance capital expenditures to be spent on or before March 31, 2013.

As of December 31, 2010, the Company had released $79.7 million of the restricted cash for approved expenditures under the required projects, including $1.4 million in interest earned on such restricted cash. As of December 31, 2010 $2.7 million of the Merger Restricted Cash remains for removal of dual poles in Vermont. In addition, the Company also had $1.4 million of cash restricted for other purposes.

In total, the Company had $4.1 million of restricted cash at December 31, 2010 of which $2.4 million is shown in current assets and $1.7 million is shown as a non-current asset on the condensed consolidated balance sheet. Subsequent to December 31, 2010, the Merger Restricted Cash for removal of dual poles in Vermont was moved to an escrow account.

(f) Accounts Receivable

Accounts receivable are recorded at the invoiced amount and do not bear interest. The allowance for doubtful accounts is the Company's best estimate of the amount of probable credit losses in the Company's existing accounts receivable. The Company establishes an allowance for doubtful accounts based upon factors surrounding the credit risk of specific customers, historical trends, and other information. Receivable balances are reviewed on an aged basis and account balances are written off against the allowance after all means of collection have been exhausted and the potential for recovery is considered remote.

The following is activity in the Company's allowance for doubtful accounts receivable for the years ended December 31, 2010, 2009 and 2008 (in thousands). Activity for the year ended December 31, 2009 has been recast to reflect the reclassification of certain PAP penalties from bad debt expense to a reduction of revenue (see note 3(a) for further information):

	2010	2009	2008
Balance, beginning of period	$ 58,358	$ 20,340	$25,585
Acquisition of Legacy FairPoint	—	—	1,832
Contributed back to Verizon	—	—	(9,356)
Provision charged to expense	20,525	48,402	25,234
Provision charged to other accounts (a)	(586)	(91)	5,419
Amounts written off, net of recoveries	(37,689)	(10,293)	(28,374)
Balance, end of period	$ 40,608	$ 58,358	$ 20,340

(a) Provision charged to other accounts includes accruals charged to accounts payable for anticipated uncollectible charges on purchase of accounts receivable from others which were billed by the Company.

(g) Credit Risk

Financial instruments, which potentially subject the Company to concentrations of credit risk, consist principally of cash and trade receivables. The Company places its cash with high-quality financial institutions. Concentrations of credit risk with respect to trade receivables are principally related to receivables from other interexchange carriers and are otherwise limited to the Company's large number of customers in several states.

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

(h) Materials and Supplies

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

(i) Property, Plant, and Equipment

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

At December 31, 2010 and 2009, accumulated depreciation for property, plant and equipment was $4.4 billion and $4.2 billion, respectively.

The estimated asset lives used are presented in the following table:

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

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

Network software purchased or developed in connection with related plant assets is capitalized. The Company also capitalizes interest associated with the acquisition or construction of network related assets. Capitalized interest is reported as part of the cost of the network related assets and as a reduction in interest expense. See note 3(k).

Periodically, the Company reviews the estimated useful lives of property, plant, and equipment along with the associated depreciation rates. Effective January 1, 2009, the depreciation rates of copper cable and certain central office equipment were decreased to reflect the change in distribution of assets within these classes. As a result, depreciation expense decreased by approximately $28.0 million in 2009 compared to 2008.

Effective January 1, 2008, the life of fiber cable was increased to 25 years from a previous life of 20 years. As a result, depreciation expense decreased by approximately $2.4 million in 2008 compared to 2007. This change was based on a review of the physical mortality of fiber cable and the Company's long-term strategy for use of fiber cable, as well as a lack of technology-driven substitutes.

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

(j) Long-Lived Assets

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

The Company determined as of December 31, 2009 that a possible impairment of long-lived assets was indicated by the filing of the Chapter 11 Cases as well as a significant decline in the fair value of the Old Common Stock. In addition, as of December 31, 2010, as a result of changes to the Company's financial projections related to the Chapter 11 Cases, the Company determined that a possible impairment of long-lived assets was indicated. In accordance with the Property, Plant, and Equipment Topic of the ASC, the Company performed recoverability tests, based on undiscounted projected future cash flows associated with its long-lived assets, at each of these dates and determined that long-lived assets were not impaired at December 31, 2010 or 2009.

While no impairment charges resulted from the analyses performed at December 31, 2010 and 2009, asset values may be adjusted in the future due to the application of fresh start accounting upon the Company's emergence from Chapter 11.

(k) Computer Software and Interest Costs

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

Subsequent additions, modifications or upgrades to internal-use software are capitalized only to the extent that they allow the software to perform a task it previously did not perform. Software maintenance and training costs are expensed in the period in which they are incurred.

In addition, the Company capitalizes the interest cost associated with the period of time over which the Company's internal use software is developed or obtained in accordance with the Interest Topic of the ASC. The Company has not capitalized interest costs incurred subsequent to the filing of the Chapter 11 Cases, as payments on all interest obligations have been stayed as a result of the filing of the Chapter 11 Cases. Upon entry into the $1,075.0 million senior secured credit facility with a syndicate of lenders and Bank of America, N.A., as the administrative agent for the lenders, arranged by Banc of America Securities LLC (the "Exit Credit Agreement") on the Effective Date, the Company resumed capitalization of interest costs.

On January 15, 2007, FairPoint entered into the Master Services Agreement (the "MSA"), with Capgemini U.S. LLC. Through the MSA, the Company replicated and/or replaced certain existing Verizon systems during a phased period through January 2009. As of June 30, 2009, the Company had completed the application development stage of the project and was no longer capitalizing costs in accordance with the Intangibles-Goodwill and Other Topic of the ASC. The Company has recognized both external and internal service costs associated with the MSA based on total labor incurred through the completion of the application development stage. As of December 31, 2010, the Company had capitalized $107.0 million of MSA costs and an additional $6.9 million of interest costs.

In addition to the MSA, the Company has other agreements and projects for which costs are capitalized in accordance with the Intangibles — Goodwill and Other Topic and the Interest Topic of the ASC. During the years ended December 31, 2010 and 2009, the Company capitalized $12.6 million and $19.4 million, respectively, in software costs in addition to those capitalized under the MSA. During the year ended December 31, 2009, the Company capitalized $2.5 million in interest costs in addition to those capitalized under the MSA. The Company did not capitalize any interest costs during the year ended December 31, 2010.

As of December 31, 2010 and 2009, the Company had capitalized $139.0 million and $126.4 million, respectively, of costs under the Intangibles — Goodwill and Other Topic of the ASC and $9.4 million of interest costs under the Interest Topic of the ASC.

(l) Debt Issue Costs

On March 31, 2008, immediately prior to the Merger, Legacy FairPoint and Spinco entered into the Credit Agreement, dated as of March 31, 2008 ("Pre-Petition Credit Facility"), consisting of the Revolving Credit Facility, the Term Loan (defined as a senior secured term loan A facility in an aggregate principal amount of $500.0 million (the "Term Loan A Facility") and a senior secured term loan B facility in the aggregate principal amount of $1,130.0 million (the "Term Loan B Facility")) and the delayed draw term loan facility in an aggregate principal amount of $200.0 million (the "Delayed Draw Term Loan"). The Company incurred $29.2 million of debt issue costs associated with these credit facilities and began to amortize these costs over the life of the related debt, ranging from 6 to 7 years using the effective interest method.

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

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

In connection with the accrued and unpaid interest on the 13 1/8% Senior Notes due April 1, 2018 (the "Old Notes") exchanged in connection with the Company's offer to exchange the Old Notes for the 13 1/8% Senior Notes due April 2, 2018 (the "New Notes") (the "Exchange Offer") consummated on July 29, 2009, the Company paid a cash consent fee of $1.6 million in the aggregate to holders of the Old Notes who validly delivered and did not revoke consents in the related consent solicitation prior to a specified early consent deadline, which amount was equal to $3.75 in cash per $1,000 aggregate principal amount of the Old Notes exchanged in the Exchange Offer. Pursuant to the Debt Topic of the ASC, this consent fee was capitalized and the Company began to amortize these costs over the life of the New Notes using the effective interest method.

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

The Company entered into the Debtor-in-Possession Credit Agreement (as amended, the "DIP Credit Agreement") on October 27, 2009. The Company incurred $0.9 million of debt issue costs associated with the DIP Credit Agreement and began to amortize these costs over the nine-month life of the DIP Credit Agreement using the effective interest method. Concurrent with the final order of the Bankruptcy Court, dated March 11, 2010 (the "Final DIP Order"), the Company incurred an additional $1.1 million of debt issue costs associated with the DIP Credit Agreement and began to amortize these costs over the remaining life of the DIP Credit Agreement using the effective interest method. On October 22, 2010, the Company incurred an additional $0.4 million of debt issue costs to extend the DIP Credit Agreement through January 2011. The Company has amortized these costs over the extended life of the DIP Credit Agreement.

As of December 31, 2010 and 2009, the Company had capitalized debt issue costs of $0.1 million and $0.7 million, respectively, net of amortization.

(m) Advertising Costs

Advertising costs are expensed as they are incurred.

(n) Goodwill and Other Intangible Assets

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

Goodwill impairment is determined using a two-step process. Step one compares the estimated fair value of the Company's single wireline reporting unit (calculated using both the market approach and the income approach) to its carrying amount, including goodwill. The market approach compares the fair value of the Company, as measured by its market capitalization, to the carrying amount of the Company, which represents its shareholders' equity balance. As of December 31, 2010, shareholders' deficit totaled $587.4 million. The income approach compares the fair value of the Company, as measured by discounted expected future cash flows, to the carrying amount of the Company. If the Company's carrying amount exceeds its estimated fair value, there is a potential impairment and step two of the analysis must be performed.

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

The Company performed step one of its annual goodwill impairment assessment as of October 1, 2010 and concluded that there was no impairment at that time.

As of December 31, 2010, the Company had goodwill of $595.1 million.

The Company's only non-amortizable intangible asset is the trade name of Legacy FairPoint acquired in the Merger. Consistent with the valuation methodology used to value the trade name at the Merger, the Company assesses the fair value of the trade name based on the relief from royalty method. If the carrying amount of the trade name exceeds its estimated fair value, the asset is considered impaired. The Company performed its annual non-amortizable intangible asset impairment assessment as of October 1, 2010 and concluded that there was no indication of impairment at that time. As of December 31, 2010, as a result of changes to the Company's financial projections related to the Chapter 11 Cases, the Company determined that a possible impairment of its non-amortizable intangible assets was indicated. The Company performed an interim non-amortizable intangible asset impairment assessment as of December 31, 2010 and determined that the trade name was not impaired.

For its non-amortizable intangible asset impairment assessments at December 31, and October 1, 2010, the Company made certain assumptions including an estimated royalty rate, a long-term growth rate, an effective tax rate and a discount rate, and applied these assumptions to projected future cash flows of the consolidated FairPoint Communications business, exclusive of cash flows associated with wholesale revenues as these revenues are not generated through brand recognition. Changes in one or more of these assumptions may have resulted in the recognition of an impairment loss.

While no impairment charges resulted from the analyses performed at October 1, 2010, asset values may be adjusted in the future due to the application of fresh start accounting upon the Company's emergence from Chapter 11.

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

(o) Income Taxes

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

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

The Income Taxes Topic of the ASC requires applying a "more likely than not" threshold to the recognition and de-recognition of tax positions. The Company's unrecognized tax benefits totaled $5.4 million as of January 1, 2010 and $5.4 million as of December 31, 2010, of which $2.0 million would impact its effective tax rate, if recognized.

In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. During non-bankruptcy periods, the ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. Management determines its estimates of future taxable income based upon the scheduled reversal of deferred tax liabilities, projected future taxable income exclusive of reversing temporary differences, and tax planning strategies. The Company establishes valuation allowances for deferred tax assets when it is estimated to be more likely than not that the tax assets will not be realized. Based upon the Chapter 11 reorganization, management believes it can support the realizability of its deferred tax asset only by the scheduled reversal of its deferred tax liabilities and can no longer rely upon the projection of future taxable income.

(p) Stock-based Compensation Plans

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

(q) Employee Benefit Plans

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

(r) Business Segments

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

(s) Purchase Accounting

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

(t) New Accounting Pronouncements

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

In October 2009, the FASB issued an ASU regarding revenue recognition for multiple deliverable arrangements. This method allows a vendor to allocate revenue in an arrangement using its best estimate of selling price if neither vendor specific objective evidence nor third party evidence of selling price exists. Accordingly, the residual method of revenue allocation will no longer be permissible. This ASU must be adopted no later than the beginning of the first fiscal year beginning on or after June 15, 2010. It is not yet known what impact this ASU will have on the Company's financial statements.

Effective 2011, the Company will adopt the ASU regarding when to perform Step 2 of the goodwill impairment test for reporting units with zero or negative carrying amounts. This ASU modifies Step 1 of the goodwill impairment test for reporting units with zero or negative carrying amounts. For those reporting units, an entity is required to perform Step 2 of the goodwill impairment test if it is more likely than not that a goodwill impairment exists. In determining whether it is more likely than not that a goodwill impairment exists, an entity should consider whether there are any adverse qualitative factors indicating an impairment may exist. The qualitative factors are consistent with the existing guidance, which requires that goodwill of a reporting unit be tested for impairment between annual tests if an event occurs or circumstances change that would more likely than not reduce the fair value of a reporting unit below its carrying amount. For public entities, the amendments in this ASU are effective for fiscal year, and interim periods within those years, beginning after December 15, 2010. Early adoption is not permitted. It is not yet known what impact this ASU will have on the Company's financial statements.

(4) Certain Transactions

(a) Merger

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

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

(b) Dividends

On December 5, 2008, the Company declared a dividend of $0.2575 per share of common stock, which was paid on January 16, 2009 to holders of record as of December 31, 2008. In 2008, the Company declared dividends totaling $69.0 million, or $0.773 per share of common stock. Prior to the Merger, Legacy FairPoint declared a dividend totaling $14.0 million, or $0.39781 per share of common stock, which was paid on April 16, 2008 to Legacy FairPoint holders of record as of March 30, 2008.

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

(5) Acquisitions and Dispositions

On March 31, 2008, the Company completed the Merger with Northern New England Spinco, Inc., or Spinco. The Merger of FairPoint and Spinco was accounted for as a reverse acquisition of FairPoint by Spinco under the purchase method of accounting because Verizon's stockholders owned a majority of the shares of the combined Company following the Merger. The Merger consideration was $316.3 million. Goodwill resulting from this transaction will not be deductible for income tax purposes. Spinco was a wholly-owned subsidiary of Verizon that owned Verizon's local exchange and related business activities in Maine, New Hampshire and Vermont. Spinco was spun off from Verizon immediately prior to the Merger. Spinco served approximately 1,562,000 access line equivalents as of the date of acquisition.

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

- the issuance of additional shares of Spinco common stock that were distributed in a spin-off, referred to as the distribution;
- a special cash payment of $1,160.0 million to the Verizon Group; and
- the issuance by Spinco to the Verizon Group of the Old Notes.

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

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

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

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

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

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

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

	Pro forma year ended December 31, 2008 (unaudited)
Revenue	$ 1,341,623
Net loss	$ (87,582)
Loss per common share:	
Basic	$ (1.09)
Diluted	$ (1.09)

(6) Goodwill and Other Intangible Assets

Changes in the carrying amount of goodwill were as follows (in thousands):

Balance, December 31, 2008	$ 619,372
Adjustment to deferred income taxes	(24,252)
Balance, December 31, 2009	$595,120
No adjustment	—
Balance, December 31, 2010	$595,120

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

	December 31, 2010	December 31, 2009
Customer lists (weighted average 9.7 years):		
Gross carrying amount	$ 208,504	$ 208,504
Less accumulated amortization	(62,073)	(39,501)
Net customer lists	146,431	169,003
Trade names (indefinite life):		
Gross carrying amount	42,816	42,816
Total intangible assets, net	$189,247	$211,819

The estimated weighted average useful lives of the intangible assets are 9.7 years for the customer relationships and an indefinite useful life for trade names. Amortization expense was $22.6 million, $22.6 million and $17.2 million for the years ended December 31, 2010, 2009 and 2008, respectively, and is expected to be approximately $22.6 million per year.

(7) Property, Plant, and Equipment

A summary of property, plant, and equipment is shown below (in thousands):

	Estimated life (in years)	December 31, 2010	December 31, 2009
Land	—	$ 23,880	$ 23,871
Buildings and leasehold improvements	2 — 45	328,822	313,766
Central office equipment	5 — 11	2,467,286	2,388,216
Outside communications plant	15 — 50	3,009,886	2,908,287
Furniture, vehicles and other work equipment	3 — 15	350,242	326,157
Plant under construction	—	50,619	144,541
Other	—	43,877	35,359
Total property, plant, and equipment		6,274,612	6,140,197
Accumulated depreciation		(4,414,912)	(4,189,762)
Net property, plant, and equipment		$ 1,859,700	$ 1,950,435

Depreciation expense, excluding amortization of intangible assets, for the years ended December 31, 2010, 2009, and 2008 was $267.3 million, $252.7 million, and $237.8 million, respectively. Depreciation expense includes amortization of assets recorded under capital leases.

(8) Interest Rate Swap Agreements

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

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

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

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

In addition, as a result of the restatement of the interim condensed consolidated financial statements contained in the Amendments (the “2009 Restatement”), the Company determined that the Company was not in compliance with the interest coverage ratio maintenance covenant and the leverage ratio maintenance covenant under the Pre-Petition Credit Facility for the measurement period ended June 30, 2009, which constituted an event of default under each of the Pre-Petition Credit Facility and the Swaps, and may have constituted an event of default under the New Notes together with the Old Notes (the “Pre-Petition Notes”), in each case at June 30, 2009.

As a result of the Merger, the Company reassessed the accounting treatment of the Swaps and determined that, beginning on April 1, 2008, the Swaps did not meet the criteria for hedge accounting. Therefore, the changes in fair value of the Swaps subsequent to the Merger have been recorded as other income (expense) on the consolidated statement of operations. At December 31, 2010 and 2009, the carrying value of the Swaps was a net liability of approximately $98.8 million, all of which has been included in liabilities subject to compromise as a result of the filing of the Chapter 11 Cases. The carrying value of the Swaps at December 31, 2010 and 2009 represents the termination value of the Swaps as determined by the respective counterparties following the event of default described above. The Company has recognized no gain or loss on derivative instruments on the consolidated statement of operations during the year ended December 31, 2010. The Company recognized a $12.3 million gain on derivative as a result of changes in the fair value of the Swaps during the year ended December 31, 2009. In addition, during the year ended December 31, 2009, the Company recognized a loss of approximately $10.3 million through reorganization items related to the termination of the swaps as a result of the event of default described above.

(9) Long-term Debt

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

	December 31, 2010	December 31, 2009
Senior secured Pre-Petition Credit Facility, variable rates ranging from 6.75% to 7.00% (weighted average rate of 6.94%) at December 31, 2010, due 2014 to 2015	$ 1,970,963	$1,965,450
Senior Notes, 13.125%, due 2018	549,996	549,996
Total outstanding long-term debt	$2,520,959	$2,515,446

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

The estimated fair value of the Company's long-term debt at December 31, 2010 and 2009 was approximately $1,539.7 million and $1,619.9 million respectively, based on market prices of the Company's debt securities at the respective balance sheet dates.

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

On September 25, 2009, the Company entered into forbearance agreements with the lenders under the Pre-Petition Credit Facility and the Swaps under which the lenders agreed to forbear from exercising their rights and remedies under the respective agreements with respect to any events of default through October 30, 2009. On October 26, 2009, the Company filed the Chapter 11 Cases. The filing of the Chapter 11 Cases constituted an event of default under each of the Pre-Petition Credit Facility, the New Notes and the Swaps. However, the Company believes that any efforts to enforce payment obligations under these agreements are stayed as a result of the filing of the Chapter 11 Cases. For additional information about the impact of the Chapter 11 Cases, see note 1.

The approximate aggregate maturities of long-term debt for each of the five years subsequent to December 31, 2010 are as follows (in thousands):

Year ending December 31,	
2011	$ 58,725
2012	63,300
2013	288,300
2014	134,450
2015	1,426,188
Thereafter	549,996
	$2,520,959

Pursuant to the Plan, the Company did not make any principal or interest payments on its pre-petition debt during the pendency of the Chapter 11 Cases. In accordance with the Reorganizations Topic of the ASC, as interest on the Pre-Petition Notes subsequent to the Petition Date was not expected to be an allowed claim, the Company had not accrued interest expense on the Pre-Petition Notes subsequent to the Petition Date. Accordingly, $72.2 million and $13.4 million of interest on unsecured debts, at the stated contractual rates, was not accrued for this reason during the year ended December 31, 2010 and 2009, respectively. The Company had continued to accrue interest expense on the Pre-Petition Credit Facility, as such interest is considered an allowed claim per the Plan.

All pre-petition debt was terminated on the Effective Date.

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

Pre-Petition Credit Facility

On March 31, 2008, immediately prior to the Merger, FairPoint and Spinco entered into the Pre-Petition Credit Facility consisting of the Revolving Credit Facility, the Term Loan and the Delayed Draw Term Loan. Spinco drew $1,160.0 million under the Term Loan immediately prior to the spin-off, and then the Company drew $470.0 million under the Term Loan and $5.5 million under the Delayed Draw Term Loan concurrently with the closing of the Merger. Subsequent to the Merger, the Company had drawn an additional $194.5 million under the Delayed Draw Term Loan. These funds were used for certain capital expenditures and other expenses associated with the Merger.

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

The Revolving Credit Facility has a swingline subfacility in the amount of $10.0 million and a letter of credit subfacility in the amount of $30.0 million, which will allow issuances of standby letters of credit by the Company. The Pre-Petition Credit Facility also permitted interest rate and currency exchange swaps and similar arrangements that the Company may enter into with the lenders under the Pre-Petition Credit Facility and/or their affiliates.

As of December 31, 2010, the Company had borrowed $155.5 million under the Revolving Credit Facility. Upon the event of default under the Pre-Petition Credit Facility relating to the Chapter 11 Cases described herein, the commitments under the Revolving Credit Facility were automatically terminated. Accordingly, as of December 31, 2010, no funds remained available under the Revolving Credit Facility.

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

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

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

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

The Pre-Petition Credit Facility required the Company first to prepay outstanding Term Loan A loans in full, including any applicable fees, interest and expenses and, to the extent that no Term Loan A loans remain outstanding, Term Loan B loans, including any applicable fees, interest and expenses, with, subject to certain conditions and exceptions, 100% of the net cash proceeds the Company receives from any sale, transfer or other disposition of any assets, subject to certain reinvestment rights, 100% of net casualty insurance proceeds, subject to certain reinvestment rights and 100% of the net cash proceeds the Company receives from the issuance of debt obligations and preferred stock. In addition, the Pre-Petition Credit Facility required it to prepay outstanding Term Loans on the date the Company delivered a compliance certificate pursuant to the Pre-Petition Credit Facility beginning with the fiscal quarter ended June 30, 2009 demonstrating that the Company's leverage ratio for the preceding quarter was greater than 3.50 to 1.00, with an amount equal to the greater of (i) $11,250,000 or (ii) 90% of the Company's excess cash flow calculated after its permitted dividend payment and less its amortization payments made on the Term Loans pursuant to the Pre-Petition Credit Facility. Notwithstanding the foregoing, the Company may have designated the type of loans which were to be prepaid and the specific borrowings under the affected facility pursuant to which any amounts mandatorily prepaid would have been applied in forward order of maturity of the remaining amortization payments.

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

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

Scheduled amortization payments on our Pre-Petition Credit Facility began in 2009. No principal payments were due on the Pre-Petition Notes prior to their maturity. As a result of the Chapter 11 Cases, the Company has not made any additional principal or interest payments on its pre-petition debt.

For the year ended December 31, 2009, the Company repaid $8.4 million of principal under the Term Loan A Facility and $6.1 million of principal under the Term Loan B Facility.

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

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

The Pre-Petition Credit Facility also contained restrictions on the Company's ability to pay dividends on its common stock.

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

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

The Pre-Petition Credit Facility was terminated on the Effective Date.

Old Notes

On March 31, 2008, Spinco issued $551.0 million aggregate principal amount of the Old Notes. The Old Notes were set to mature on April 1, 2018 and were not redeemable at the Company's option prior to April 1, 2013. Interest was payable on the Old Notes semi-annually in cash on April 1 and October 1 of each year. The Old Notes bear interest at a fixed rate of 13 1/8% and principal was due at maturity. The Old Notes were issued at a discount and, accordingly, at the date of their distribution, the Old Notes had a carrying value of $539.8 million (principal amount at maturity of $551.0 million less discount of $11.2 million). Following the filing of the Chapter 11 Cases, $9.9 million of discount on the Pre-Petition Notes was written off in order to adjust the carrying amount of the Company's pre-petition debt to the Bankruptcy Court approved amount of the allowed claims for the Company's pre-petition debt.

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

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

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

Issuance of New Notes and Payment of Consent Fee

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

The New Notes mature on April 2, 2018 and bear interest at a fixed rate of 13?%, payable in cash, except that the New Notes bore interest at a rate of 15% for the period from July 29, 2009 through and including September 30, 2009. In addition, the Company was permitted to pay the interest payable on the New Notes for the Initial Interest Payment Period in the form of cash, by capitalizing such interest and adding it to the principal amount of the New Notes or a combination of both cash and such capitalization of interest, at its option. The Company intended to make the $12.2 million interest payments due on October 1, 2009 on the New Notes by capitalizing such interest and adding it to the principal amount of the New Notes. As the Pre-Petition Notes have been classified as subject to compromise as of December 31, 2009, the Company has classified the accrued interest on the exchanged Old Notes as of December 31, 2009 of $12.2 million as subject to compromise on the consolidated balance sheet. In accordance with the Reorganizations Topic of the ASC, as interest on the Pre-Petition Notes subsequent to the Petition Date is not expected to be an allowed claim, the Company has not accrued interest expense on the Pre-Petition Notes subsequent to the Petition Date.

The Indenture, dated as of July 29, 2009, by and between FairPoint Communications, Inc. and U.S. Bank National Association (the “New Indenture”) limits, among other things, the Company’s ability to incur additional indebtedness, issue certain preferred stock, repurchase its capital stock or subordinated debt, make certain investments, create certain liens, sell certain assets or merge or consolidate with or into other companies, incur restrictions on the ability of the Company’s subsidiaries to make distributions or transfer assets to the Company and enter into transactions with affiliates.

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

As a result of the Chapter 11 Cases, the Company did not make any principal or interest payments on its pre-petition debt during the year ended December 31, 2010. During the year ended December 31, 2009, the Company repurchased $19.9 million in aggregate principal amount of the Old Notes for an aggregate purchase price of $6.3 million in cash. In total, including amounts repaid under the Term Loan A Facility and Term Loan B Facility, the Company retired $34.5 million of outstanding debt during the year ended December 31, 2009.

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

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

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

The Pre-Petition Notes were terminated on the Effective Date.

Debtor-in-Possession Financing

DIP Credit Agreement

In connection with the Chapter 11 Cases, the FairPoint Communications and FairPoint Logistics, Inc. (“FairPoint Logistics,” and together with FairPoint Communications, the “DIP Borrowers”) entered into the Debtor-in-Possession Credit Agreement, dated as of October 27, 2009 (“DIP Credit Agreement”) with certain financial institutions (“DIP Lenders”) and the Administrative Agent. The

DIP Credit Agreement provided for DIP Financing. Pursuant to the Order of the Bankruptcy Court, dated October 28, 2009 (the "Interim Order"), the DIP Borrowers were authorized to enter into and immediately draw upon the DIP Credit Agreement on an interim basis, pending a final hearing before the Bankruptcy Court, in an aggregate amount of $20.0 million. On March 11, 2010 the Bankruptcy Court entered the final order of the Bankruptcy Court (the "Final DIP Order"), permitting the DIP Borrowers access to the total $75.0 million of the DIP Financing, subject to the terms and conditions of the DIP Credit Agreement and related orders of the Bankruptcy Court. As of December 31, 2010, the Company had not borrowed any amounts under the DIP Credit Agreement and letters of credit totaling $18.7 million had been issued under the DIP Credit Agreement.

The DIP Financing (defined as the revolving facility with an aggregate principal amount of up to $75.0 million, of which up to $30.0 million was also available in the form of one or more letters of credit that may be issued to third parties for our account) matured and was repayable in full on the earlier to occur of (i) January 31, 2011, which date could have been extended for up to an additional two months with the consent of the Required Lenders (as defined in the DIP Credit Agreement) for no additional fee, (ii) the Effective Date, (iii) the voluntary reduction by the DIP Borrowers to zero of all commitments to lend under the DIP Credit Agreement, or (iv) the date on which the obligations under the DIP Financing were accelerated by the non-defaulting DIP Lenders holding a majority of the aggregate principal amount of the outstanding loans and letters of credit plus unutilized commitments under the DIP Financing upon the occurrence and during the continuance of certain events of default.

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

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

Interest accrued from and including the date of any borrowing up to but excluding the date of any repayment thereof and was payable (i) in respect of each base rate loan, monthly in arrears on the last business day of each month, (ii) in respect of each Eurodollar loan, on the last day of each interest period applicable thereto (which shall be a period of one month) and (iii) in respect of each such loan, on any prepayment or conversion (on the amount prepaid or converted), at maturity (whether by acceleration or otherwise) and, after such maturity, on demand. The DIP Credit Agreement provided for the payment to the Administrative Agent, for the pro rata benefit of the DIP Lenders, of an upfront fee in the aggregate principal amount of $1.5 million, which upfront fee was payable in two installments: (1) the first installment of $0.4 million was due and payable on October 28, 2009, the date on which the Interim Order was entered by the Bankruptcy Court, and (2) the remainder of the upfront fee was due and payable on the date the Final DIP Order was entered by the Bankruptcy Court. The DIP Credit Agreement also provided for an unused line fee of 0.50% on the unused revolving commitment, payable monthly in arrears on the last business day of each month (or on the date of maturity, whether by acceleration or otherwise), and a letter of credit facing fee of 0.25% per annum calculated daily on the stated amount of all outstanding letters of credit, payable monthly in arrears on the last business day of each month (or on the date of maturity, whether by acceleration or otherwise), as well as certain other fees.

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

Covenants. Under the DIP Credit Agreement, the DIP Borrowers were required to maintain compliance with certain covenants, including maintaining minimum EBITDAR (earnings before interest, taxes, depreciation, amortization, restructuring charges and certain other non-cash costs and charges, as set forth in the DIP Credit Agreement) and not exceeding maximum permitted capital expenditure amounts. Covenants related to EBITDAR and capital expenditures were removed under the 15th Amendment to the DIP Credit Agreement, effective October 22, 2010. The DIP Credit Agreement also contained customary affirmative and negative covenants and restrictions, including, among others, with respect to investments, additional indebtedness, liens, changes in the nature of the business, mergers, acquisitions, asset sales and transactions with affiliates. As of December 31, 2010, the DIP Borrowers were in compliance with all covenants under the DIP Credit Agreement.

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

DIP Pledge Agreement

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

DIP Subsidiary Guaranty

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

DIP Security Agreement

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

As of December 31, 2010, the Company had not borrowed any amounts under the DIP Credit Agreement, however letters of credit had been issued under the DIP Credit Agreement for $18.7 million. Accordingly, as of December 31, 2010, the amount available under the DIP Credit Agreement was $56.3 million.

The DIP Credit Agreement was terminated on January 24, 2011 (the “Effective Date”). All letters of credit outstanding under the DIP Credit Agreement were transferred to the Exit Credit Agreement on the Effective Date.

Exit Credit Agreement

On the Effective Date the Exit Borrowers entered into the $1,075.0 million senior secured credit facility with a syndicate of lenders and Bank of America, N.A., as the administrative agent for the lenders, arranged by Banc of America Securities LLC (the “Exit Credit Agreement”). The Company’s $1,075.0 million Exit Credit Agreement consists of a non-amortizing revolving facility (the “Exit Revolving Loan”) in an aggregate principal amount of $75.0 million and a senior secured term loan facility in an aggregate principal amount of $1,000.0 million (the “Term Loan Facility”). The Company drew the full $1,000.0 million under the Term Loan Facility immediately upon emergence on the Effective Date. The Exit Revolving Loan includes a $30.0 million sublimit available for the issuance of letters of credit. Letters of credit outstanding under the DIP Credit Agreement on the Effective Date were rolled into the Exit Revolving Loan. As of the Effective Date, the Company had approximately $1,000.0 million of total debt outstanding. In addition, as of the Effective Date, the Company had $56.3 million, net of outstanding letters of credit, available for additional borrowing under the Exit Revolving Loan.

(10) Employee Benefit Plans

The Company remeasured its pension and other post-employment benefit assets and liabilities as of December 31, 2010 and 2009, in accordance with the Compensation—Retirement Benefits Topic of the ASC. These measurements were based on weighted average discount rates of 5.61% and 6.07% as of December 31, 2010 and 2009, respectively, as well as certain other valuation assumption modifications.

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

The structure of Verizon's benefit plans did not provide for the separate attribution of the related pension and postretirement assets and obligations at the Verizon Northern New England business level. Because there was not a separate plan for the Verizon Northern New England business, the annual income and expense related to such assets and obligations were allocated to the Verizon Northern New England business and are reflected as prepaid pension assets and employee benefit obligations in the balance sheet prior to the Merger.

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

Table of Contents

Obligations and funded status

A summary of plan assets, projected benefit obligation and funded status of the plans are as follows for the years ended December 31, 2010 and 2009:

	Qualified Pension		Post-retirement Healthcare	
	Year ended December 31,		Year ended December 31,	
(In thousands)	2010	2009	2010	2009
Fair value of plan assets:				
Fair value of plan assets at beginning of year	$ 162,604	$ 184,300	$ —	$ —
Actual return on plan assets	18,180	26,339	(1)	—
Plan settlements	—	(47,857)	—	—
Employer contributions	—	—	1,735	389
Benefits paid	(4,310)	(178)	(1,520)	(389)
Fair value of plan assets at end of year	176,474	162,604	214	—
Projected benefit obligation:				
Projected benefit obligation at beginning of year	$ 205,234	$ 222,393	$ 260,330	$ 221,286
Service cost	11,187	10,923	14,321	13,020
Interest cost	12,963	13,269	16,347	13,889
Plan amendments	—	—		
Plan settlements	—	(47,857)	—	—
Benefits paid	(4,310)	(178)	(1,520)	(389)
Actuarial loss	40,686	6,684	55,423	12,524
Projected benefit obligation at end of year	265,760	205,234	344,901	260,330
Plan assets less than projected benefit obligation	$ (89,286)	$ (42,630)	$ (344,687)	$ (260,330)
Accumulated benefit obligation	$265,688	$204,946	N/A	N/A
Amounts recognized in the consolidated balance sheets:				
Non-current assets	$ 2,960	$ 8,808	$ —	$ —
Current liabilities	—	—	(2,515)	(961)
Non-current liabilities	(92,246)	(51,438)	(342,172)	(259,369)
Net amount recognized	$ (89,286)	$ (42,630)	$ (344,687)	$ (260,330)
Amounts recognized in accumulated other comprehensive income (loss):				
Prior service cost	$ (17,141)	$(18,665)	$ (29,426)	$ (33,715)
Net actuarial loss	(117,749)	(80,666)	(127,660)	(75,707)
Net amount recognized in accumulated other comprehensive loss	$ (134,890)	$ (99,331)	$(157,086)	$ (109,422)

Pension plan assets at December 31, 2009 include an additional transfer of assets from Verizon of $33.3 million, which was received on February 5, 2010, as well as a pending transfer of assets from Verizon estimated as of December 31, 2009 to be $0.2 million. As of December 31, 2009, a disputed amount was pending final validation by a third-party actuary of the census information and related actuarial calculations in accordance with relevant statutory and regulatory guidelines and the Employee Matters

Agreement, dated January 15, 2007 between Verizon and the Company (the "Employee Matters Agreement"). The disputed amount was not included in the Company's pension plan assets at December 31, 2009. By letter dated July 29, 2010, the third-party actuary appointed to perform the review and validation determined that an additional $2.5 million, adjusted for gains or losses since the date of the original transfer, should be transferred from Verizon's defined benefit plans' trusts to the Company's represented employees pension plan trust. This transfer was received in the amount of $2.4 million on September 1, 2010, at which time the Company's net pension obligation was decreased by this amount.

The plans' portfolio strategy emphasizes a long-term equity orientation, significant global diversification and financial and operating risk controls. The plans' diversification seeks to minimize the concentration of risk. Assets are allocated according to long-term risk and return estimates. Both active and passive management approaches are used depending on perceived market efficiencies and various other factors.

The fair values for the pension plans by asset category at December 31, 2010 are as follows:

(In thousands)	Total	Level 1	Level 2	Level 3
Cash and cash equivalents	$ 5,111	$ 5,111	$ —	$ —
Equity securities	85,886	85,886	—	—
Fixed income securities	63,546	21,823	41,723	—
Hedge funds	21,931	—	—	21,931
Total	$176,474	$112,820	$ 41,723	$21,931

The fair values for the pension plans by asset category at December 31, 2009 were as follows:

(In thousands)	Total	Level 1	Level 2	Level 3
Cash and cash equivalents	$ 18,972	$ 18,972	$ —	$ —
Equity securities	41,569	41,569	—	—
Fixed income securities	52,045	—	52,045	—
Hedge funds	14,202	—	—	14,202
Funds receivable from Verizon	33,553	—	—	33,553
Other assets	2,263	—	—	2,263
Total	$ 162,604	$ 60,541	$ 52,045	$ 50,018

A reconciliation of the beginning and ending balance of pension plan assets that are measured at fair value using significant unobservable (Level 3) inputs as of December 31, 2010 is as follows:

(In thousands)	Hedge Funds	Funds Receivable from Verizon	Other Assets	Total
Balance at December 31, 2008	$ —	$ 32,094	$ —	$ 32,094
Actual gain (loss) on plan assets	(798)	1,459	—	661
Purchases and sales	—	—	—	—
Transfers in and/or out of Level 3	15,000	—	2,263	17,263
Balance at December 31, 2009	$ 14,202	$ 33,553	$ 2,263	$ 50,018
Actual gain (loss) on plan assets	(171)	—	68	(103)
Purchases and sales	—	—	—	—
Transfers in and/or out of Level 3	7,900	(33,553)	(2,331)	(27,984)
Balance at December 31, 2010	$ 21,931	$ —	$ —	$ 21,931

Cash and cash equivalents include short-term investment funds, primarily in diversified portfolios of investment grade money market instruments and are valued using quoted market prices, and thus classified within Level 1 of the fair value hierarchy.

Equity securities are investments in common stock of domestic and international corporations in a variety of industry sectors and are valued using quoted market prices, and are classified within Level 1 of the fair value hierarchy.

Fixed income securities are investments in corporate bonds and in publicly traded mutual funds that invest in corporate bonds. The fair values of corporate bonds are based on observable prices and are classified within Level 2 of the fair value hierarchy. Pricing of publicly traded mutual funds is readily available and, therefore, these funds are classified within Level 1 of the fair value hierarchy.

Hedge funds seek to maximize absolute returns using a broad range of strategies to enhance returns and provide diversification. The fair values of hedge funds are estimated using net asset value per share (NAV) of the investments. The Company has the ability to redeem these investments at NAV on a limited basis, and thus has classified hedge funds within Level 3 of the fair value hierarchy.

Other assets represent cash and cash equivalents held in a short-term investment fund. Due to limitations on the liquidity of assets within this fund, the Company has classified these assets within Level 3 of the fair value hierarchy.

Funds receivable from Verizon represent the estimated pending transfer of funds from Verizon following final actuarial settlement. Concurrent with the closing of the Merger, Verizon transferred 80% of the value of the pension plans to the Company. During the three months ended March 31, 2010, $33.3 million was transferred from Verizon's defined benefit pension plans' trusts to the Company's pension plan trust. As of December 31, 2009, a disputed amount was pending final validation by a third-party actuary of the census information and related actuarial calculations in accordance with relevant statutory and regulatory guidelines and the Employee Matters Agreement. The disputed amount was not included in the Company's pension plan assets at December 31, 2009. By letter dated July 29, 2010, the third-party actuary appointed to perform the review and validation determined that an additional $2.5 million, adjusted for gains or losses since the date of the original transfer, should be transferred from Verizon's defined benefit plans' trusts to the Company's represented employees pension plan trust. This transfer was received in the amount of $2.4 million on September 1, 2010, at which time the Company's net pension obligation was decreased by this amount.

Net periodic benefit costComponents of the net periodic benefit (income) cost related to the Company's pension and post-retirement healthcare plans for the years ended December 31, 2010 and 2009 and the nine months ended December 31, 2008 are presented below.

	Qualified Pension			Post-retirement Healthcare		
	Year ended December 31,		Nine months ended December 31,	Year ended December 31,		Nine months ended December 31,
(In thousands)	2010	2009	2008	2010	2009	2008
Service cost	$ 11,187	$ 10,923	$ 6,741	$ 14,321	$ 13,020	$ 7,018
Interest cost	12,963	13,269	9,383	16,347	13,889	8,196
Expected return on plan assets	(16,664)	(20,575)	(15,745)	(3)	—	—
Amortization of prior service cost	1,524	1,452	632	4,289	4,293	3,219
Amortization of actuarial loss	2,087	813	—	3,474	3,487	261
Settlement loss	—	18,420	—	—	—	—
Net periodic benefit cost	$ 11,097	$ 24,302	$ 1,011	$ 38,428	$ 34,689	$ 18,694

The net periodic benefit (income) cost related to the Company's pension plans was $0.9 million for the year ended December 31, 2008, of which ($0.1) million related to net periodic benefit income for the three months ended March 31, 2008. The net periodic benefit cost related to the Company's post-retirement healthcare plans was $41.2 million for the year ended December 31, 2008, of which $22.5 million related to net periodic benefit cost for the three months ended March 31, 2008.

Other pre-tax changes in plan assets and benefit obligations recognized in other comprehensive (income) loss are as follows for the years ended December 31, 2010 and 2009 and the nine months ended December 31, 2008:

	Qualified Pension			Post-retirement Healthcare		
	Year ended December 31,		Nine months ended December 31,	Year ended December 31,		Nine months ended December 31,
(In thousands)	2010	2009	2008	2010	2009	2008
Amounts recognized in other comprehensive income (loss):						
New prior service cost	$ —	$ —	$ 13,454	$ —	$ —	$ 123
Net loss arising during the year	39,170	920	94,340	55,427	12,524	37,675
Amortization or curtailment of prior service cost	(1,524)	(1,452)	(632)	(4,289)	(4,293)	(3,219)
Amortization or settlement recognition of net loss	(2,087)	(19,233)	—	(3,474)	(3,487)	(261)
Total amount recognized in other comprehensive loss	$ 35,559	$ (19,765)	$ 107,162	$ 47,664	$ 4,744	$ 34,318
Estimated amounts that will be amortized from accumulated other comprehensive loss in the next fiscal year:						
Prior service cost	$ (126)	$ (1,524)	$ (1,452)	$ (357)	$ (4,290)	$ (4,292)
Net actuarial loss	(365)	(1,115)	(623)	(475)	(3,110)	(2,656)
Total amount estimated to be amortized from accumulated other comprehensive loss in the next fiscal year	$ (491)	$ (2,639)	$ (2,075)	$ (832)	$ (7,400)	$ (6,948)

During the years ended December 31, 2010 and 2009, the Company did not make a contribution to the qualified pension plans, but did incur $1.5 million and $0.4 million, respectively, in post-retirement healthcare plan expenditures. In 2011, the Company expects to make contributions of $6.8 million and $2.5 million to its qualified pension plans and post-retirement healthcare plans, respectively.

Assumptions

The weighted average assumptions used in determining benefit obligations are as follows:

	December 31, 2010	December 31, 2009
Qualified Pension		
Discount rate	5.56%	6.00%
Rate of future increases in compensation	3.00%	4.00%
Post-retirement Healthcare		
Discount rate	5.65%	6.13%
Rate of future increases in compensation	4.00%	4.00%

The weighted average assumptions used in determining net periodic cost are as follows:

	Year ended December 31, 2010	Year ended December 31, 2009	Nine months ended December 31, 2008
Qualified Pension			
Discount rate	6.00%	5.94%	6.80%
Expected return on plan assets	8.32%	8.32%	8.38%
Rate of compensation increase	4.00%	4.00%	4.00%
Post-retirement Healthcare			
Discount rate	6.13%	5.95%	6.80%
Rate of compensation increase	4.00%	4.00%	4.00%
Healthcare cost trend rate assumed for participants under 65 next year	7.70%	8.00%	9.50%
Healthcare cost trend rate assumed for participants over 65 next year	8.20%	8.50%	10.50%
Rate that the cost trend rates ultimately declines to	4.00%	4.00%	5.00%
Year that the rates reach the terminal rate	2029	2029	2014

Prior to the Merger, the weighted average assumptions used in determining net periodic cost for the three months ended March 31, 2008 were as follows:

	Three months ended March 31, 2008
Qualified Pension	
Discount rate	6.50%
Expected return on plan assets	8.50%
Rate of compensation increase	4.00%
Post-retirement Healthcare	
Discount rate	6.00%
Rate of compensation increase	4.00%

In developing the expected long-term rate-of-return assumption, the Company evaluated historical investment performance and input from its investment advisors. Projected returns by such advisors were based on broad equity and bond indices. The expected long-term rate-of-return on qualified pension plan assets is based on target allocations of 50% equity and 50% fixed income securities for the management plan and 70% equity and 30% fixed income securities for the associate plan. The asset allocation at December 31, 2010 for the Company's qualified pension plan assets was as follows:

	Management Plan	Associate Plan	Total Pension
Cash and cash equivalents (1)	1.3%	0.8%	0.9%
Equity securities	41.9%	69.8%	63.1%
Fixed income securities	56.8%	29.4%	36.0%
	100.0%	100.0%	100.0%

(1) Cash and cash equivalents includes only those amounts that are held in the respective plans' trusts as cash and cash equivalent instruments. Amounts pending purchase or settlement of equity or fixed income securities are classified within equity securities or fixed income securities, as appropriate.

For the years ended December 31, 2010 and 2009, the actual return on the pension plan assets was approximately 11.2% and 17.3%, respectively. Net periodic benefit cost for 2010 assumes a weighted average annualized expected return on plan assets of approximately 8.3%. Should the Company's actual return on plan assets become significantly lower than the expected return assumption, the net periodic benefit cost may increase in future periods and the Company may be required to contribute additional funds to its pension plans.

A 1% change in the medical trend rate assumed for post-retirement healthcare benefits would have the following effects at December 31, 2010:

(In thousands)	Post-retirement Healthcare
1% increase in the medical trend rate:	
Effect on total service cost and interest cost components	$ 7,278
Effect on benefit obligation	$ 80,342
1% decrease in the medical trend rate:	
Effect on total service cost and interest cost components	$ (5,589)
Effect on benefit obligation	$ (61,572)

The impact of the Medicare Drug Act of 2003 subsidy on the post-retirement health benefits at December 31, 2010 is as follows:

(In thousands)	Post-retirement Healthcare
Change in projected benefit obligation	
	$ (20,794)
Change in each component of net periodic cost:	
Service cost	$ (866)
Interest cost	(947)
Net amortization and deferral of prior service cost	16
Net amortization and deferral of actuarial loss	(349)
Total change in net periodic cost	$ (2,146)

Estimated future benefit payments

Estimated future employer contributions, benefit payments and Medicare prescription drug subsidies expected to offset the future post-retirement healthcare benefit payments are as follows as of December 31, 2010:

(In thousands)	Qualified Pension	Post-retirement Healthcare
Expected employer contributions for 2011	$ 6,821	$ 2,515
Expected benefit payments:		
2011	$ 9,815	$ 2,515
2012	3,444	3,356
2013	12,667	4,371
2014	13,909	5,320
2015	4,802	6,641
2016-2020	43,077	59,159
Expected subsidy:		
2011		$ 12
2012		21
2013		33
2014		52
2015		82
2016-2020		1,321

401(k) savings plans

The Company and its subsidiaries sponsor four voluntary 401(k) savings plans that, in the aggregate, cover substantially all eligible Legacy FairPoint employees, and two voluntary 401(k) savings plans that cover in the aggregate substantially all eligible Northern New England operations employees (collectively, "the 401(k) Plans"). Each 401(k) Plan year, the Company contributes to the 401(k) Plans an amount of matching contributions determined by the Company at its discretion. For the 401 (k) Plan years ended December 31, 2010 and 2009, the Company matched 100% of each employee's contribution up to 5% of compensation. For the 401(k) Plan year ended December 31, 2008, the Company generally matched in the Legacy FairPoint 401(k) plans 100% of each employee's contribution up to 3% of compensation and 50% of additional contributions up to 6% or as otherwise required by relevant collective bargaining agreement; in the Northern New England 401(k) management plan an amount equal to 100% of each employee's contribution up to 6% of base compensation, plus, depending on Company performance, an additional discretionary match of up to 50% of the next 3% of base compensation; and in the Northern New England 401(k) plan for union associates an amount equal to 82% of each employee's contribution up to 6% of base compensation. Total Company contributions to all 401(k) Plans were $10.4 million, $9.8 million, and $10.9 million for the years ended December 31, 2010, 2009 and 2008, respectively.

(11) Income Taxes

Income tax (expense) benefit for the years ended December 31, 2010, 2009 and 2008 consists of the following components (in thousands):

	2010	2009	2008
Current:			
Federal	$ —	$ —	$ 8,027
State and local	(732)	(240)	1,498
Total current income tax (expense) benefit	(732)	(240)	9,525
Investment tax credits	478	532	417
Deferred:			
Federal	3,246	69,704	30,269
State and local	4,669	9,018	3,197
Total deferred income tax benefit	7,915	78,722	33,466
Total income tax benefit	$ 7,661	$ 79,014	$ 43,408

Total income tax benefit was different than that computed by applying U.S. Federal income tax rates to income before income taxes for the years ended December 31, 2010, 2009 and 2008. The 2.6% effective tax (benefit) rate for the year ended December 31, 2010 was impacted by a one-time, non-cash income tax charge of $6.8 million during the first quarter of 2010, as a result of the enactment of Patient Protection and Affordable Care Act and the Health Care and Education Reconciliation Act of 2010, both of which became law in March 2010 (collectively, the "Health Care Act"). Under the Health Care Act, beginning in 2013, the Company will no longer receive a federal income tax deduction for the expenses incurred in connection with providing the subsidized coverage under Medicare Part D for retiree prescription drug coverage to the extent of the subsidy the Company receives for providing that coverage. Because future anticipated retiree prescription drug plan liabilities and related subsidies are already reflected in the Company's financial statements, this change required the Company to reduce the value of the related tax benefits recognized in its financial statements in the period during which the Health Care Act was enacted. Our effective tax rate for the year ended December 31, 2010 was also impacted by non-deductible restructuring charges and post-petition interest, as well as a significant increase in our valuation allowance for deferred tax assets due to our inability, by rule, to rely on future earnings to offset our NOLs during the Chapter 11 Cases.

A reconciliation of the Company's statutory tax rate to its effective tax rate is presented below (in percentages):

	2010	2009	2008
Statutory Federal income tax (benefit) rate	(35.0)%	(35.0)%	(35.0)%
State income tax (expense) benefit, net of Federal income tax expense	(2.9)	(2.9)	(2.7)
Post-petition interest	16.6	2.7	—
Investment tax credits	(0.2)	(0.1)	(0.4)
Medicare subsidy	(0.3)	(0.2)	(1.0)
Restructuring charges	2.6	1.3	—
Medicare subsidy impact of law change	2.4	—	—
Other, net	0.2	1.0	0.3
Valuation allowance	14.0	8.5	—
Effective income tax (benefit) rate	(2.6)%	(24.7)%	(38.8)%

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and deferred tax liabilities as of December 31, 2010 and 2009 are presented below (in thousands):

	2010	2009
Deferred tax assets:		
Federal and state tax loss carryforwards	$ 230,398	$165,982
Employee benefits	179,904	136,242
Allowance for doubtful accounts	16,288	26,539
Investment tax credits	1,729	1,925
Alternative minimum tax and other state credits	7,315	6,095
Basis in interest rate swaps	7,087	33,181
Bond issuance costs	10,980	13,154
Service quality rebate reserve	8,333	11,044
Other, net	15,008	9,009
Total gross deferred tax assets	477,042	403,171
Deferred tax liabilities:		
Property, plant, and equipment	319,244	321,856
Goodwill and other intangible assets	81,165	88,011
Other, net	7,060	6,119
Total gross deferred tax liabilities	407,469	415,986
Net deferred tax assets (liabilities) before valuation allowance	69,573	(12,815)
Valuation allowance	(105,554)	(27,214)
Net deferred tax liabilities	$ (35,981)	$ (40,029)

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

Based upon the level of projections for future taxable income at December 31, 2008, management believed it was more likely than not the Company would realize the full benefits of these deductible differences. However, as a result of the change in facts and circumstances during 2009 in which the Company filed for Chapter 11 reorganization, the Company reassessed the likelihood that its deferred tax assets will be realized as of December 31, 2009. Based upon the change in circumstances, management believes it can support the realizability of its deferred tax asset only by the scheduled reversal of its deferred tax liabilities and can no longer rely upon the projection of future taxable income. At December 31, 2010 and 2009, the Company established a valuation allowance of $105.6 million and $27.2 million, respectively, against its deferred tax assets which consists of a $85.1 million and $21.7 million Federal allowance, respectively, and a $20.5 million and $5.5 million state allowance, respectively.

In addition to the impact of the change in valuation allowance, the effective tax rate for the years ended December 31, 2010 and 2009 is impacted by post-petition interest on debts that is not expected to be paid and, therefore, not expected to result in a future tax deduction, as well as non-deductible costs incurred related to the Chapter 11 Cases.

At December 31, 2010, the Company had federal and state NOL carryforwards of $597.5 million that will expire from 2019 to 2030. At December 31, 2010, the Company has alternative minimum tax credits of $3.8 million that may be carried forward indefinitely. Legacy FairPoint completed an initial public offering on February 8, 2005, which resulted in an “ownership change” within the meaning of the U.S. Federal income tax laws addressing NOL carryforwards, alternative minimum tax credits, and other similar tax attributes. The Merger also resulted in an ownership change. As a result of these ownership changes, there are specific limitations on the Company's ability to use its NOL carryfowards and other tax attributes. It is the Company's belief that it can use the NOLs even with these restrictions in place.

During the year ended December 31, 2010, the Company excluded from taxable income $21.6 million of income from the discharge of indebtedness as defined under Internal Revenue Code ("IRC") Section 108. IRC Section 108 excludes from taxable income the amount of indebtedness discharged under a Chapter 11 case. IRC Section 108 also requires a reduction of tax attributes equal to the amount of excluded taxable income to be made on the first day of the tax year following the emergence from bankruptcy. These tax attributes will primarily consist of a reduction to the NOL carryforward and tax basis of other assets, and accordingly, the Company has reduced its NOL carryforward by $21.6 million and its related deferred tax asset by $8.2 million.

The Income Taxes Topic of the ASC requires the use of a two-step approach for recognizing and measuring tax benefits taken or expected to be taken in a tax return and disclosures regarding uncertainties in income tax positions. The unrecognized tax benefits under the Income Taxes Topic of the ASC are similar to the income tax reserves reflected prior to adoption under SFAS No. 5, *Accounting for Contingencies,* whereby reserves were established for probable loss contingencies that could be reasonably estimated. The adoption of the uncertainties in income tax positions provisions of the Income Taxes Topic of the ASC (formerly FIN 48) did not have a material impact on the Company's financial position or results of operations. A reconciliation of the beginning and ending amount of unrecognized tax benefits is as follows (in thousands):

Balance as of December 31, 2008	$ 8,594
Additions for tax positions related to the current year	—
Additions for tax positions related to acquired companies	—
Additions for tax positions of prior years	—
Reductions for tax positions of prior years	—
Reductions as a result of audit settlements	(3,219)
Reductions due to lapse of statute of limitations	—
Balance as of December 31, 2009	$ 5,375
Additions for tax positions related to the current year	—
Additions for tax positions related to acquired companies	—
Additions for tax positions of prior years	—
Reductions for tax positions of prior years	—
Reductions as a result of audit settlements	—
Reductions due to lapse of statute of limitations	—
Balance as of December 31, 2010	$ 5,375

As of the Effective Date, the Company expects that its unrecognized tax benefits will be reduced to approximately $1.0 million as a result of the termination of the Tax Sharing Agreements with Verizon. Of the $5.4 million of unrecognized tax benefits at December 31, 2010, $2.0 million would impact the Company's effective tax rate, if recognized.

The Company recognizes any interest and penalties accrued related to unrecognized tax benefits in income tax expense. During the years ended December 31, 2010 and 2009, the Company did not make any payment of interest and penalties. During the year ended December 31, 2008, the Company recognized $0.2 million (after-tax) for the payment of interest and penalties. The Company had $1.0 million and $0.8 million (after-tax) for the payment of interest and penalties accrued in the consolidated balance sheet at December 31, 2010 and 2009, respectively.

The Company or one of its subsidiaries files income tax returns in the U.S. federal jurisdiction, and with various state and local governments. The Company is no longer subject to U.S. federal, state and local, or non-U.S. income tax examinations by tax authorities for years prior to 2004. During the quarter ending June 30, 2009, Verizon received notification from the IRS that a tax position taken on their returns for the years 2000 through 2003 relating to FairPoint's acquired business was settled through acceptance of the filing position. During the quarter ending June 30, 2008, Verizon effectively settled the IRS examination for fiscal years 2000 through 2003. Due to the executed Tax Sharing Agreement, the settlement of the IRS audit resulted in an amount due to Verizon from FairPoint in the amount of $1.5 million relating to adjustments of temporary differences and $0.1 million of interest. As of December 31, 2010, the Company does not have any significant additional jurisdictional tax audits.

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

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

(12) Accumulated Other Comprehensive Loss

Changes in the components of accumulated other comprehensive income were as follows (in thousands):

	As of December 31,	
	2010	2009
Accumulated other comprehensive loss, net of taxes:		
Defined benefit pension and post-retirement healthcare plans	$(212,804)	$(124,924)
Total other accumulated comprehensive loss	$(212,804)	$(124,924)

Defined benefit pension and post-retirement healthcare plan activity during 2008 included $49.5 million (net of $32.8 million taxes) in connection with the Merger, which is reflected as a reduction to Accumulated Other Comprehensive Loss. This amount represents the allocation of previously existing plan assets, obligations and prior service costs to the surviving benefit plans upon Merger. Other Comprehensive Loss for the years ended December 31, 2010, 2009 and 2008 also includes amortization of defined benefit pension and post-retirement healthcare plan related prior service costs and actuarial gains and losses included in Accumulated Other Comprehensive Loss.

(13) Earnings Per Share

Earnings per share has been computed in accordance with the Earnings Per Share Topic of the ASC. Basic earnings per share is computed by dividing net income by the weighted average number of shares of common stock outstanding for the period. Except when the effect would be anti-dilutive, the diluted earnings per share calculation calculated using the treasury stock method includes the impact of stock units, shares of non-vested common stock and shares that could be issued under outstanding stock options. The weighted average number of common shares outstanding for all periods presented have been restated to reflect the issuance of 53,760,623 shares to the stockholders of Spinco in connection with the Merger.

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

	Year ended December 31,	
	2010	2009
Weighted average number of common shares used for basic earnings per share	89,424	89,271
Effect of potential dilutive shares	—	—
Weighted average number of common shares and potential dilutive shares used for diluted earnings per share	89,424	89,271
Anti-dilutive shares excluded from the above reconciliation	983	2,750

As the Company incurred a loss for the years ended December 31, 2010 and 2009, all potentially dilutive securities are anti-dilutive and are, therefore, excluded from the determination of diluted earnings per share.

(14) Stockholders' Deficit

On March 31, 2008, FairPoint completed the acquisition of Spinco, pursuant to which Spinco merged with and into FairPoint, with FairPoint continuing as the surviving corporation for legal purposes. In order to effect the Merger, the Company issued 53,760,623 shares of common stock, par value $.01 per share, to Verizon stockholders for their interest in Spinco. At the time of the Merger, Legacy FairPoint had 35,264,945 shares of common stock outstanding. Upon consummation of the Merger, the combined Company had 89,025,568 shares of common stock outstanding. At December 31, 2010, there were 89,440,334 shares of common stock outstanding and 200,000,000 shares of common stock were authorized.

As a result of the Chapter 11 Cases, on the Effective Date, the Old Common Stock was cancelled.

(15) Stock-Based Compensation

Pursuant to the Plan, all outstanding equity interests of the Company, including but not limited to all outstanding shares of Common Stock, options and contractual or other rights to acquire any equity interests, were cancelled and extinguished on the Effective Date.

Upon consummation of the Merger, the Company inherited several stock based compensation plans that had been adopted by Legacy FairPoint prior to the Merger. As these plans were inherited on March 31, 2008, there is no impact reflected in the consolidated balance sheets or consolidated statements of operations for periods prior to March 31, 2008.

Effective on January 1, 2006, the Company adopted the provisions of SFAS 123(R). At December 31, 2010, the Company had $0.3 million of total unearned compensation cost related to non-vested share-based payment arrangements granted under the Company's five stock-based compensation plans. That cost was expected to be recognized over a weighted average period of 1.0 year, but was recognized in full as a component of reorganization costs on the Effective Date. Compensation cost for awards is recognized on a straight-line basis over the requisite service period of each award. Any future share awards under any of these plans will be made using newly issued shares. Amounts recognized in the financial statements with respect to these plans are as follows (in thousands):

	Year ended December 31,		
	2010	2009	2008
Amounts charged against income, before income tax benefit	$ 468	$ 2,052	$ 4,408
Amount of related income tax benefit recognized in income	(188)	(825)	(1,758)
Total net income impact	$ 280	$ 1,227	$ 2,650

(a) 1998 Stock Incentive Plan

In August 1998, the Company adopted the FairPoint Communications, Inc. (formerly MJD Communications, Inc.) Stock Incentive Plan (the "1998 Plan"). The 1998 Plan provided for grants of up to 1,317,425 nonqualified stock options to executives and members of management, at the discretion of the compensation committee of the board of directors. Options vest in 25% increments on the second, third, fourth, and fifth anniversaries of an individual grant. All options have a term of 10 years from date of grant. In the event of a change in control, outstanding options will vest immediately. Effective in February 2005, the Company may no longer grant awards under the 1998 Plan.

Pursuant to the terms of the grant, options granted in 1998 and 1999 would have become exercisable only in the event that the Company was sold, an initial public offering of the Company's common stock resulted in the principal shareholders holding less than 10% of their original ownership, or other changes in control, as defined, were to have occurred. The number of options that would have become ultimately exercisable also depended upon the extent to which the price per share obtained in the sale of the Company would exceed a minimum selling price of $22.59 per share. The initial public offering did not trigger exercisability of these options.

In February 2007, all the options outstanding under the 1998 Plan were cancelled, except the 47,373 options with a $36.94 exercise price. This cancellation was triggered by certain events noted in the 1998 Plan.

These stock options were granted by the Company prior to becoming a public company and therefore the Company is accounting for these options under the prospective method under SFAS 123(R). As of December 31, 2010, options to purchase 47,373 shares of common stock were outstanding with a weighted average exercise price of $36.94. These remaining options outstanding are time-based vesting only and are fully vested and exercisable as of December 31, 2010.

Stock option activity under the 1998 Plan is summarized as follows:

	Options outstanding	Weighted average exercise price
Outstanding at March 31, 2008	47,373	$ 36.94
Granted	—	—
Exercised	—	—
Forfeited	—	—
Outstanding at December 31, 2008	47,373	$ 36.94
Granted	—	—
Exercised	—	—
Forfeited	—	—
Outstanding at December 31, 2009	47,373	$ 36.94
Granted	—	—
Exercised	—	—
Forfeited	—	—
Outstanding at December 31, 2010	47,373	$ 36.94
Stock options available for grant at December 31, 2010	—	—

Options outstanding				Options exercisable
Exercise price	Number outstanding at December 31, 2010	Remaining contractual life (years)	Aggregate Intrinsic Value (In thousands)	Number exercisable at December 31, 2010
$36.94	47,373	1.0	—	47,373

The outstanding options have no aggregate intrinsic value based on the closing price of the Company's stock of $0.02 on December 31, 2010.

(b) 2000 Employee Stock Incentive Plan

In May 2000, the Company adopted the FairPoint Communications, Inc. 2000 Employee Stock Incentive Plan (the "2000 Employee Stock Incentive Plan"). The 2000 Employee Stock Incentive Plan provided for grants to members of management of up to 1,898,521 options to purchase common stock, at the discretion of the compensation committee. During 2002, the Company amended the 2000 Employee Stock Incentive Plan to limit the number of shares available for grant to 448,236. In December 2003, the Company amended the 2000 Employee Stock Incentive Plan to allow for the grant to members of management of up to 1,898,521 shares of stock units in addition to shares available for stock options. Options granted under the 2000 Employee Stock Incentive Plan may be of two types: (i) incentive stock options and (ii) non-statutory stock options. Unless the compensation committee shall otherwise specify at the time of grant, any option granted under the 2000 Employee Stock Incentive Plan shall be a non-statutory stock option. Effective in February 2005, the Company may no longer grant awards under the 2000 Employee Stock Incentive Plan.

Under the 2000 Employee Stock Incentive Plan, unless otherwise determined by the compensation committee at the time of grant, participating employees were granted options to purchase common stock at exercise prices not less than the market value of the Company's common stock at the date of grant. Options have a term of 10 years from date of grant. Options vest in increments of 10% on the first anniversary, 15% on the second anniversary, and 25% on the third, fourth, and fifth anniversaries of an individual grant. Stock units vest in increments of 33% on each of the third, fourth, and fifth anniversaries of the award. Subject to certain provisions, the Company can cancel each option in exchange for a payment in cash of an amount equal to the excess of the fair value of the shares over the exercise price for such option. The Company has not previously exercised this right and does not currently intend to exercise this right in the future.

The 2000 Employee Stock Incentive Plan stock options and stock units were granted by the Company prior to becoming a public company and therefore the Company is accounting for these awards under the prospective method under SFAS 123(R).

Stock option activity under the 2000 Employee Stock Incentive Plan is summarized as follows:

	Options outstanding	Weighted average exercise price
Outstanding at March 31, 2008	208,687	$ 36.94
Granted	—	—
Exercised	—	—
Forfeited	—	—
Outstanding at December 31, 2008	208,687	$ 36.94
Granted	—	—
Exercised	—	—
Forfeited	(77,752)	$ 36.94
Outstanding at December 31, 2009	130,935	$ 36.94
Granted	—	—
Exercised	—	—
Forfeited	—	—
Outstanding at December 31, 2010	130,935	$ 36.94
Stock options available for grant at December 31, 2010	—	—

The remaining contractual life for the options outstanding at December 31, 2010 was 1.8 years, and 130,935 options were exercisable. Based upon the fair market value of the stock as of December 31, 2010 of $0.02, these options do not have any intrinsic value.

As of March 31, 2008, there were 6,957 stock units outstanding with a grant date fair value per share of $32.51. During 2008, 1,703 stock units were forfeited and 5,254 stock units vested and were converted to common shares. No unvested awards remained as of December 31, 2008. The intrinsic value of the 5,254 stock units that vested during 2008 was $0.1 million.

(c) 2005 Stock Incentive Plan

In February 2005, the Company adopted the FairPoint Communications, Inc. 2005 Stock Incentive Plan (the "2005 Stock Incentive Plan"). The 2005 Stock Incentive Plan provides for the grant of up to 947,441 shares of non-vested stock, stock units and stock options to members of the Company's board of directors and certain key members of the Company's management. Shares granted to employees under the 2005 Stock Incentive Plan vest over periods ranging from three to four years and certain of these shares pay current dividends. At December 31, 2010, up to 79,781 additional shares of common stock may be issued in the future pursuant to awards authorized under the 2005 Stock Incentive Plan.

In March 2006, the Company's board of directors approved the grant of an additional 100,000 shares to the Company's chief executive officer. These shares were granted under the 2005 Stock Incentive Plan in two installments of 50,000 shares each on January 1, 2007 and January 1, 2008. These shares are considered to have been granted in March 2006 under SFAS 123(R) at a grant date fair value of $14.02 per share.

In 2005, the Company's board of directors approved an annual award to each of the Company's non-employee directors in the form of non-vested stock or stock units, at the recipient's option, issued under the 2005 Stock Incentive Plan. The non-vested stock and stock units will vest in four equal quarterly installments on the first day of each of the first four calendar quarters following the grant date and the holders thereof will be entitled to receive dividends from the date of grant, whether or not vested. The following table presents information regarding stock units granted to non-employee directors under the 2005 Stock Incentive Plan (including stock units granted in lieu of dividends):

Stock units	Units outstanding	Weighted average grant date fair value per share
Outstanding at March 31, 2008	29,544	$ 15.04
Granted	43,965	9.86
Exercised	—	—
Forfeited	—	—
Outstanding at December 31, 2008	73,509	$ 11.94
Granted	6,272	3.02
Exercised	—	—
Forfeited	—	—
Outstanding at December 31, 2009	79,781	$ 11.24
Granted	—	—
Exercised	—	—
Forfeited	—	—
Outstanding at December 31, 2010	79,781	$ 11.24

The fair value of the awards is calculated as the fair value of the shares on the date of grant. Beginning on January 1, 2006, the Company adopted the provisions of SFAS 123(R) using the modified prospective method for the awards under the 2005 Stock Incentive Plan as all awards were granted subsequent to the Company becoming public. Under this methodology, the Company is required to estimate expected forfeitures related to these grants and, for the non-dividend paying shares, the compensation expense is reduced by the present value of the dividends which were not paid on those shares prior to their vesting.

The following table presents information regarding non-vested stock granted to employees under the 2005 Stock Incentive Plan:

Non-vested stock	Shares outstanding	Weighted average grant date fair value per share
Non-vested at March 31, 2008	412,807	$ 16.88
Granted	—	—
Vested	(164,296)	18.28
Forfeited	(85,250)	17.25
Non-vested at December 31, 2008	163,261	$ 15.27
Granted	—	—
Vested	(101,269)	15.92
Forfeited	(11,993)	17.76
Non-vested at December 31, 2009	49,999	$ 13.36
Granted	—	—
Vested	(20,451)	13.52
Forfeited	(12,882)	13.52
Non-vested at December 31, 2010	16,666	$ 13.02

The weighted average fair value of the 20,451 shares that vested in 2010 was $0.03.

(d) 2008 Long Term Incentive Plan

In March 2008, the Company adopted the FairPoint Communications, Inc. 2008 Long Term Incentive Plan (the "2008 Long Term Incentive Plan"). The 2008 Long Term Incentive Plan provides for the grant of up to 9,500,000 shares of non-vested stock, stock units and stock options to members of the Company's board of directors and certain key members of the Company's management. Shares granted to employees under the 2008 Long Term Incentive Plan vest over periods ranging from two to three years and certain of these shares pay current dividends. At December 31, 2010, up to 8,980,363 additional shares of common stock may be issued in the future pursuant to awards authorized under the 2008 Long Term Incentive Plan.

On March 27, 2008, the Company's compensation committee approved the award of performance units under the Plan for the performance period beginning April 1, 2008 and ending December 31, 2008 and for the performance period beginning April 1, 2008 and ending December 31, 2009, in each case to certain key employees. On March 6, 2009, 502,764 common shares were issued, and 265,957 performance units were forfeited to satisfy tax withholdings, for the performance period beginning April 1, 2008 and ending December 31, 2008. The Company failed to meet the threshold performance conditions for issuance of shares related to the performance period beginning April 1, 2008 and ending December 31, 2009. As such, all performance units under this grant were forfeited as of December 31, 2009.

On June 18, 2008, the Company's compensation committee approved the award of performance units under the Plan for the performance period beginning April 1, 2008 and ending December 31, 2010 to certain key employees. The Company failed to meet the threshold performance conditions for issuance of shares related to the performance period beginning April 1, 2008 and ending December 31, 2010. As such, all performance units under this grant were forfeited as of December 31, 2010.

On March 3, 2009, the Company's compensation committee approved the award of performance units under the Plan for the performance period beginning January 1, 2009 and ending December 31, 2011 to certain key employees. As of December 31, 2010, no shares of common stock had been issued pursuant to this grant.

In 2008, the Company's board of directors approved an annual award to each of the Company's non-employee directors in the form of non-vested stock or stock units, at the recipient's option, issued under the 2008 Long Term Incentive Plan. The non-vested stock and stock units will vest in four equal quarterly installments on the first day of each of the first four calendar quarters following the grant date and the holders thereof will be entitled to receive dividends from the date of grant, whether or not vested. The following table presents information regarding stock units granted to non-employee directors under the 2008 Plan (including stock units granted in lieu of dividends):

Stock units	Units outstanding	Weighted average grant date fair value per share
Outstanding at March 31, 2008	—	$ —
Granted	—	—
Exercised	—	—
Forfeited	—	—
Outstanding at December 31, 2008	—	$ —
Granted	175,352	1.79
Exercised	—	—
Forfeited	—	—
Outstanding at December 31, 2009	175,352	$ 1.79
Granted	—	—
Exercised	—	—
Forfeited	—	—
Outstanding at December 31, 2010	175,352	$ 1.79

The fair value of the awards is calculated as the fair value of the shares on the date of grant. Beginning on January 1, 2006, the Company adopted the provisions of SFAS 123(R) using the modified prospective method for the awards under the 2005 Stock Incentive Plan as all awards were granted subsequent to the Company becoming public. Under this methodology, the Company is required to estimate expected forfeitures related to these grants and, for the non-dividend paying shares, the compensation expense is reduced by the present value of the dividends which were not paid on those shares prior to their vesting.

The following table presents information regarding non-vested stock granted to employees under the 2008 Long Term Incentive Plan:

Non-vested stock	Shares outstanding	Weighted average grant date fair value per share
Non-vested at March 31, 2008	—	$ —
Granted	50,000	8.45
Vested	—	—
Forfeited	—	—
Non-vested at December 31, 2008	50,000	$ 8.45
Granted	—	—
Vested	(16,873)	8.45
Forfeited	(8,127)	8.45
Non-vested at December 31, 2009	25,000	$ 8.45
Granted	—	—
Vested	—	—
Forfeited	(25,000)	8.45
Non-vested at December 31, 2010	—	$ —

No shares vested in 2010.

(e) 2009 CEO Compensation Plan

On June 10, 2009, the Company’s compensation committee approved the award of certain equity incentives to David L. Hauser, the Company’s new Chairman and Chief Executive Officer, as an inducement to accept employment with the Company (the “Inducement Awards”). As provided in Mr. Hauser’s employment agreement, dated June 11, 2009, the Inducement Awards include:

(i) the Inducement Options; (ii) the Inducement Restricted Stock; and (iii) performance units for two performance periods beginning on July 1, 2009 and ending on December 31, 2010 and December 31, 2011, respectively (the "Inducement Performance Units"). The Inducement Options, totaling 1,600,000, were granted on July 1, 2009, at an exercise price of $0.95 per share. The Inducement Options will vest and become exercisable in three equal annual installments commencing on July 1, 2010, provided that Mr. Hauser remains employed by the Company through each such date. The Inducement Restricted Stock will be awarded in the following three installments: (i) $500,000 on July 1, 2009; (ii) $1,750,000 on July 1, 2010; and (iii) $1,750,000 on July 1, 2011, and will be valued based on the average closing prices of the Company's common stock during the thirty calendar days immediately preceding the applicable award date. Accordingly, on July 1, 2009, 523,810 shares of restricted stock were awarded to Mr. Hauser. The Inducement Restricted Stock will become fully vested on July 1, 2012, provided that Mr. Hauser remains employed by the Company through such date. The Inducement Performance Units will be earned and paid in shares of the Company's common stock, based on the Company's performance during the performance periods, with a target amount of 200% of Mr. Hauser's base salary and a maximum of 400% of Mr. Hauser's base salary. The number of shares subject to the Inducement Options and the option exercise price would have been adjusted, and additional shares of Inducement Restricted Stock would have been awarded, as necessary, to preserve the value of the Inducement Options and the Inducement Restricted Stock awarded on July 1, 2009 if, prior to December 31, 2010, the Company had completed a restructuring of its indebtedness.

The grant date fair value of the Inducement Options was determined using the Black-Scholes model. Key assumptions used for determining the fair value of the Inducement Options were as follows: risk-free rate—3.54%; expected term—10 years; expected volatility—5.70%.

All of Mr. Hauser's non-vested Inducement Options and Inducement Restricted Stock were cancelled upon his resignation, effective August 24, 2010. The following table presents information regarding non-vested stock granted to Mr. Hauser under the FairPoint Communications Inc. 2009 CEO Compensation Plan:

Non-vested stock	Shares outstanding	Weighted average grant date fair value per share
Non-vested at December 31, 2008	—	$ —
Granted	523,810	0.64
Vested	—	—
Forfeited	—	—
Non-vested at December 31, 2009	523,810	$ 0.64
Granted	—	—
Vested	—	—
Forfeited	(523,810)	0.64
Non-vested at December 31, 2010	—	$ —

(f) Verizon Northern New England Business Stock-based Compensations Plans

Prior to the Merger, the Verizon Northern New England business participated in the Verizon Communications Long Term Incentive Plan (the Verizon Plan). The Verizon Plan permitted the granting of nonqualified stock options, incentive stock options, restricted stock, restricted stock units, performance shares, performance share units and other awards.

Restricted Stock Units

The Verizon Plan provided for grants of restricted stock units ("RSUs") that vested at the end of the third year of the grant. The RSUs are classified as liability awards in the balance sheets for all periods prior to the Merger, because the RSUs were paid in cash upon vesting. The RSU award liability is measured at its fair value at the end of each reporting period prior to the Merger and, therefore, fluctuated based on the price of Verizon's stock.

Performance Share Units

The Verizon Plan also provided for grants of performance share units ("PSUs") that vested at the end of the third year after the grant. The target award was determined at the beginning of the period and could increase (to a maximum 200% of the target) or decrease (to zero) based on Total Shareholder Return ("TSR"). At the end of the period, the PSU payment was determined by comparing Verizon's TSR to the TSR of a predetermined peer group and the S&P 500 companies. All payments were subject to approval by the Verizon Board's Human Resources Committee. The PSUs are classified as liability awards in the balance sheets for all periods prior to the Merger, because the PSU awards were paid in cash upon vesting. The PSU award liability is measured at its fair value at the end of each reporting period prior to the Merger and, therefore, fluctuated based on the price of Verizon's stock as well as Verizon's TSR relative to the peer group's TSR and S&P 500 TSR.

Stock Options

The Verizon Plan provided for grants of stock options to employees at an option price per share of 100% of the fair market value of Verizon stock on the date of grant. Each grant had a 10-year life, vesting equally over a three-year period, starting at the date of the grant. The Verizon Northern New England business has not granted new stock options since 2004.

The structure of Verizon's stock incentive plans did not provide for the separate determination of certain disclosures for the Verizon Northern New England business. The costs associated with such plans were allocated to the Verizon Northern New England business as part of the general allocations and were not relevant on a participant basis. The disclosures omitted are the rollforward of stock option activity, the assumptions used in the Black-Scholes valuation and information about the range of exercise prices for outstanding and exercisable options.

(16) Transactions with Affiliates

(a) Construction Services

The Company hired Gilbane Building Company to construct a new data center in Manchester, New Hampshire and to perform restoration services on a flooded building in Raymond, New Hampshire. Thomas F. Gilbane, Jr., a director of FairPoint as of December 31, 2010, is Chairman and Chief Executive Officer of Gilbane Building Company. Gilbane Building Company was hired by the Company for both projects prior to Mr. Gilbane's designation to the board of directors. The Company did not pay any fees to Gilbane Building Company in the year ended December 31, 2010. The Company paid Gilbane Building Company fees of $ $0.8 million and $2.8 million in the years ended December 31, 2009 and 2008, respectively.

(b) Verizon Northern New England business transactions with Affiliates

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

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

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

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

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

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

(17) Quarterly Financial Information (Unaudited)

Overview of Restatement

In this Annual Report on Form 10-K for our fiscal year ended December 31, 2010 (this "Annual Report"), FairPoint Communications, Inc. (the "Company") is restating its unaudited quarterly financial statements for the quarters ended March 31, 2010, June 30, 2010 and September 30, 2010 (collectively, the "2010 Interim Consolidated Financial Statements").

The Company's previously filed Quarterly Reports on Form 10-Q for the quarters ended March 31, 2010, June 30, 2010 and September 30, 2010 (collectively, the "2010 Quarterly Reports") impacted by the restatement have not been and will not be amended. Accordingly, the Company cautions you that certain information contained in the 2010 Quarterly Reports should no longer be relied upon, including the Company's previously issued and filed 2010 Interim Consolidated Financial Statements and any financial information derived therefrom. In addition, the Company cautions you that other communications or filings related to the 2010 Interim Consolidated Financial Statements should no longer be relied upon. All of the Company's Quarterly Reports on Form 10-Q that will be filed for fiscal year 2011 will include restated results for the corresponding interim periods of 2010. All amounts in this Annual Report affected by the restatement adjustments reflect such amounts as restated.

Background of the Restatement

As previously disclosed in the Company's Current Report on Form 8-K filed with the Securities and Exchange Commission ("SEC") on March 22, 2011, management of the Company, with the concurrence of the Audit Committee of the Company's Board of Directors (the "Audit Committee"), concluded that the Company would restate the 2010 Interim Consolidated Financial Statements.

In connection with the preparation of the Company's audited financial statements for the year ended December 31, 2010, management has discovered accounting errors that impact the accuracy of the Company's previously issued 2010 Interim Consolidated Financial Statements. These errors were detected in areas in which the Company had previously identified and disclosed material weaknesses in internal controls.

The restated financial statements correct the following errors:

Project Abandonment Adjustment

Certain capital projects, principally a wireless broadband fixed asset project, had been abandoned but the write-off of all of the related capitalized costs had not occurred in a timely manner.

Costs Capitalized to Property, Plant and Equipment Adjustment

Due to a backlog of capital projects not yet closed, certain costs (principally labor expenses) remained capitalized to property, plant and equipment rather than expensed.

Application of Overhead Costs Adjustment

An error was discovered in the application of overhead costs to capital projects.

Each of the errors noted above resulted in an understatement of operating expenses and an overstatement of property, plant and equipment.

Other Adjustments

In addition, as part of this restatement, the Company also adjusted other items, including certain adjustments to revenue that were identified in connection with the preparation of the consolidated financial statements for the year ended December 31, 2010, which individually were not considered to be material, but are material when aggregated with the three adjustments noted above. These adjustments are primarily related to (a) errors in the calculation of certain regulatory penalties, and (b) errors in revenue associated with certain customer billing, special project billings and intercompany/official lines. The restatement only affects the first three quarterly periods of 2010.

The Company is currently reviewing the design of its controls and procedures in order to remediate the material weakness that prevented these accounting errors from being detected in a timely manner. While the Company implements a system solution, the Company has increased the resources devoted to manual processes to compensate for the material weakness. The material weakness has been identified and is further described in Part II — Item 9A — *Controls and Procedures.*

The aggregate impact of these adjustments will result in an increase to the Company’s previously reported pre-tax loss for the nine month period ended September 30, 2010 of approximately $28.4 million, which is mainly attributable to a reduction to reported revenues of approximately $3.9 million, an increase to the Company’s previously reported expenses of approximately $26.8 million, a decrease in other expense of approximately $3.2 million and a $0.9 million increase of expense to reorganization items. The aggregate impact of the adjustments for the nine months ended September 30, 2010 will result in a reduction in net income of $28.4 million, net of taxes, and a decrease in the Company’s reported capital expenditures of approximately $15.4 million.

Cash, as previously reported, for the nine months ended September 30, 2010 was not impacted by these adjustments.

Except as required to reflect the effects of the restatement for the items set forth above, no additional modifications or updates have been made to the 2010 Interim Consolidated Financial Statements or the 2010 Quarterly Reports. For example, this Annual Report does not give effect to any subsequent events that may impact the 2010 Interim Consolidated Financial Statements or the 2010 Quarterly Reports. Other information not affected by the restatement remains unchanged and continues to reflect the disclosures made at the time of the original filing of the 2010 Quarterly Reports.

The quarterly information presented below represents selected quarterly financial results for the quarters ended March 31, June 30, September 30 and December 31, 2010 and 2009. Results for the quarters ended March 31, June 30, and September 30, 2010 reflect restated amounts as noted above.

	First quarter	Second quarter	Third quarter	Fourth quarter
	(in thousands, except per share data)			
	Restated	Restated	Restated	
2010:				
Revenue	$270,801	$271,563	$260,630	$267,992
Net loss	$ (86,330)	$ (54,178)	$ (66,084)	$ (74,987)
Loss per share				
Basic	$ (0.97)	$ (0.61)	$ (0.74)	$ (0.84)
Diluted	$ (0.97)	$ (0.61)	$ (0.74)	$ (0.84)

	First quarter	Second quarter	Third quarter	Fourth quarter
	(in thousands, except per share data)			
2009:				
Revenue (1)	$298,200	$282,506	$268,194	$ 270,190
Net Loss	$ (22,305)	$ (28,163)	$ (75,202)	$(115,726)
Loss per share				
Basic	$ (0.25)	$ (0.32)	$ (0.84)	$ (1.29)
Diluted	$ (0.25)	$ (0.32)	$ (0.84)	$ (1.29)

(1) Activity for the year ended December 31, 2009 has been recast to reflect the reclassification of certain PAP penalties from bad debt expense to a reduction of revenue (see note 3(a) for further information).

For the quarters ended March 31, and June 30, 2010, the Company has reclassified certain prior period amounts in the interim consolidated financial statements to be consistent with current period presentation. These reclassifications were made to correct the classification of PAP penalties from selling, general and administrative expenses to contra-revenue and to correct the allocation of certain employee and general computer expenses between cost of services and selling, general and administrative expenses. Correction of these classification errors resulted in decreases of $0.8 million and $0.1 million to revenue, a decrease of $0.2 million and an increase of $2.4 million to cost of services, and decreases of $0.6 million and $2.5 million to selling, general and administrative expenses for the three month periods ended March 31, and June 30, 2010, respectively. Correction of these classification errors had no impact on loss from operations or net loss.

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

	Three months ended March 31, 2010		
	As recasted	Adjustments	Restated
	(in thousands, except per share data)		
Revenues	**$ 274,368**	**$ (3,567)**	**$ 270,801**
Operating expenses:			
Cost of services and sales, excluding depreciation and amortization	130,435	7,034	137,469
Selling, general and administrative expense, excluding depreciation and amortization	94,483	(899)	93,584
Depreciation and amortization	70,345	1,037	71,382
Total operating expenses	**295,263**	**7,172**	**302,435**
Loss from operations	**(20,895)**	**(10,739)**	**(31,634)**
Other income (expense):			
Interest expense	(34,630)	—	(34,630)
Other income, net	26	—	26
Total other expense	(34,604)	—	(34,604)
Loss before reorganization items and income taxes	**(55,499)**	**(10,739)**	**(66,238)**
Reorganization items	(16,591)	—	(16,591)
Loss before income taxes	**(72,090)**	**(10,739)**	**(82,829)**
Income tax expense	(3,501)	—	(3,501)
Net loss	**$ (75,591)**	**$ (10,739)**	**$ (86,330)**
Weighted average shares outstanding:			
Basic	89,424	—	89,424
Diluted	89,424	—	89,424
Loss per share:			
Basic	$ (0.85)	$ (0.12)	$ (0.97)
Diluted	$ (0.85)	$ (0.12)	$ (0.97)

	Three months ended June 30, 2010		
	As recasted	Adjustments	Restated
	(in thousands, except per share data)		
Revenues	**$ 273,992**	**$ (2,429)**	**$ 271,563**
Operating expenses:			
Cost of services and sales, excluding depreciation and amortization	114,480	18,731	133,211
Selling, general and administrative expense, excluding depreciation and amortization	98,454	(1,392)	97,062
Depreciation and amortization	70,559	913	71,472
Total operating expenses	**283,493**	**18,252**	**301,745**
Loss from operations	**(9,501)**	**(20,681)**	**(30,182)**
Other income (expense):			
Interest expense	(35,721)	—	(35,721)
Other income (expense), net	(3,138)	3,243	105
Total other expense	(38,859)	3,243	(35,616)
Loss before reorganization items and income taxes	**(48,360)**	**(17,438)**	**(65,798)**
Reorganization items	1,549	(174)	1,375
Loss before income taxes	**(46,811)**	**(17,612)**	**(64,423)**
Income tax benefit	10,245	—	10,245
Net loss	**$ (36,566)**	**$ (17,612)**	**$ (54,178)**
Weighted average shares outstanding:			
Basic	89,424	—	89,424
Diluted	89,424	—	89,424
Loss per share:			
Basic	$ (0.41)	$ (0.20)	$ (0.61)
Diluted	$ (0.41)	$ (0.20)	$ (0.61)

	Three months ended September 30, 2010		
	As originally reported	Adjustments	Restated
	(in thousands, except per share data)		
Revenues	**$ 258,510**	**$ 2,120**	**$ 260,630**
Operating expenses:			
Cost of services and sales, excluding depreciation and amortization	115,914	2,851	118,765
Selling, general and administrative expense, excluding depreciation and amortization	99,523	(111)	99,412
Depreciation and amortization	73,693	(1,329)	72,364
Total operating expenses	**289,130**	**1,411**	**290,541**
(Loss) income from operations	**(30,620)**	**709**	**(29,911)**
Other income (expense):			
Interest expense	(35,358)	—	(35,358)
Other income, net	2,207	—	2,207
Total other expense	(33,151)	—	(33,151)
(Loss) income before reorganization items and income taxes	**(63,771)**	**709**	**(63,062)**
Reorganization items	(9,635)	(717)	(10,352)
Loss before income taxes	**(73,406)**	(8)	**(73,414)**
Income tax benefit	7,330	—	7,330
Net loss	**$ (66,076)**	**$ (8)**	**$ (66,084)**
Weighted average shares outstanding:			
Basic	89,424	—	89,424
Diluted	89,424	—	89,424
(Loss) earnings per share:			
Basic	$ (0.74)	$ —	$ (0.74)
Diluted	$ (0.74)	$ —	$ (0.74)

(18) Fair Value Measurements

The Fair Value Measurements and Disclosures Topic of the ASC (formerly SFAS No. 157, *Fair Value Measurements* ("SFAS No. 157")) defines fair value, establishes a framework for measuring fair value and establishes a hierarchy that categorizes and prioritizes the sources to be used to estimate fair value. The Fair Value Measurements and Disclosures Topic of the ASC also expands financial statement disclosures about fair value measurements.

The carrying value of the Swaps at December 31, 2010 and 2009 represents the termination value of the swaps as determined by the respective counterparties following the event of default described herein. See note 8 for more information.

The Company does not measure any financial assets or liabilities at fair value as of December 31, 2010 and 2009, however at the Effective Date, all assets and liabilities will be remeasured at fair value under fresh start accounting. See note 21.

(19) Revenue Concentrations

As of December 31, 2010, approximately 85% of the Company's access line equivalents were located in Maine, New Hampshire and Vermont. As a result of this geographic concentration, the 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 Company's services and resulting loss of access line equivalents which could have a material adverse effect on the Company's business, financial condition, results of operations, liquidity and the market price of the Company's Common Stock.

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

(20) Commitments and Contingencies

(a) Leases

Future minimum lease payments under capital leases and non-cancelable operating leases as of December 31, 2010 are as follows (in thousands):

	Capital Leases	Operating Leases
Year ending December 31:		
2011	$ 1,893	$ 10,442
2012	1,679	8,889
2013	1,499	7,403
2014	1,493	5,100
2015	105	2,572
Thereafter	—	3,823
Total minimum lease payments	$ 6,669	$ 38,229
Less interest and executory cost	(1,405)	
Present value of minimum lease payments	5,264	
Less current installments	(1,321)	
Long-term obligations at December 31, 2010	$ 3,943	

Total rent expense was $15.6 million, $16.7 million and $30.1 million in 2010, 2009 and 2008, respectively.

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

(b) Legal Proceedings

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

On the Petition Date FairPoint Communications and substantially all of its direct and indirect subsidiaries filed voluntary petitions for relief under the Chapter 11 Cases.

On January 13, 2011, the Bankruptcy Court entered an Order Confirming Debtors' Third Amended Joint Plan of Reorganization Under Chapter 11 of the Bankruptcy Code, dated as of December 29, 2010 (the "Confirmation Order"), which confirmed the Company's Third Amended Joint Plan of Reorganization Under Chapter 11 of the Bankruptcy Code (as confirmed, the "Plan").

On the Effective Date, the Company substantially consummated the reorganization through a series of transactions contemplated by the Plan, and the Plan became effective pursuant to its terms.

(c) Service Quality Penalties

The Company is subject to certain service quality requirements in the states of Maine, New Hampshire and Vermont. Failure to meet these requirements in any of these states may result in penalties being assessed by the respective state regulatory body. As of December 31, 2010, the Company has recognized an estimated liability for service quality penalties based on metrics defined by the state regulatory authorities in Maine, New Hampshire and Vermont. The Merger Orders provide that any penalties assessed by the states be paid by the Company in the form of credits applied to customer bills. Based on the Company's current estimate of its service quality penalties in these states, an increase of $11.7 million in the estimated liability was recorded as a reduction to revenue for the year ended December 31, 2010. The amount recorded during the year ended December 31, 2010 includes $2.1 million related to prior periods. During the year ended December 31, 2010, the Company paid out $5.8 million of service quality index ("SQI") penalties in the form of customer rebates, all of which were related to Maine fiscal 2008 and 2009 penalties. The Company has recorded a total liability of $20.8 million and $27.5 million on the consolidated balance sheets at December 31, 2010 and 2009, respectively of which $12.5 million and $0.8 million, respectively, is included in other accrued liabilities and the remainder is included in liabilities subject to compromise.

During February 2010, the Company entered into regulatory settlements with the representatives for each of Maine, New Hampshire and Vermont regarding modification of each state's Merger Order (each a "Regulatory Settlement," and collectively, the "Regulatory Settlements"), which have since been approved by the regulatory authorities in these states. The Regulatory Settlements in New Hampshire and Vermont deferred fiscal 2008 and 2009 SQI penalties until December 31, 2010 and include a clause whereby such penalties will be forgiven in part or in whole if the Company met certain metrics for the twelve-month period ending December 31, 2010. As a result of improvements on certain SQI metrics, the Company expects to receive waivers of 60% in New Hampshire and at least 80% in Vermont under this clause, and, accordingly, has reduced its accrual by $12.7 million in the three months ended December 31, 2010. The Company's SQI penalties in the state of New Hampshire are currently subject to an audit ordered by the NHPUC. SQI penalties in Maine and Vermont may also be subject to audit, as determined by the MPUC and the Vermont Board, respectively. In addition, the Regulatory Settlement for Maine deferred the Company's fiscal 2008 and 2009 SQI penalties until March 2010. Beginning in March 2010, the Company began to issue SQI rebates related to the Maine 2008 and 2009 SQI penalties to customers over a twelve month period.

(d) Performance Assurance Plan Credits

As part of the Merger Orders, the Company adopted certain PAPs in the states of Maine, New Hampshire and Vermont. Failure to meet specified performance standards in any of these states may result in performance credits being assessed in accordance with the provisions of the PAP in each state. As of December 31, 2010, the Company has recorded a reserve for the estimated amount of PAP credits based on metrics defined by the PAP. Credits assessed in Maine and New Hampshire are recorded as a reduction to accounts receivable since they are paid by the Company in the form of credits applied to CLEC bills. Certain credits assessed in Vermont are recorded to other accrued liabilities as they are paid to the Vermont Universal Service Fund, while the remaining credits assessed in Vermont are paid by the Company in the form of credits applied to CLEC bills. Based on the Company's current estimate of its PAP credits in these states, an increase of $2.7 million in the estimated reserve was recorded as a reduction to revenue for the year ended December 31, 2010. During the year ended December 31, 2010 the Company paid out $7.9 million of PAP credits. The Company has recorded a total reserve of $8.4 million and $13.7 million on the consolidated balance sheets at December 31, 2010 and 2009, respectively.

The NHPUC has ordered an audit of the Company's PAP credits in the state of New Hampshire. PAP credits in Maine and Vermont may also be subject to audit, as determined by the MPUC and the Vermont Board, respectively.

(e) Capital Expenditure Obligations

Under regulatory settlements in each of Maine, New Hampshire and Vermont, the Company is required to make certain capital expenditures in each of these states. Beginning from the date of the Merger, the Company is required to spend $141.0 million through March 31, 2011 in Maine, $350.4 million through March 31, 2015 in New Hampshire and $120.0 million through March 31, 2011 in Vermont. The Company is in compliance with the expenditure requirements with a deadline of March 31, 2011 in Maine and Vermont.

(f) Volume Purchase Commitment

On June 1, 2010, the Bankruptcy Court approved the Company's motion to assume an amended volume product purchase and sale agreement with Occam Networks, Inc ("Occam"). This motion includes a commitment by the Company to purchase at least $12.0 million worth of products from Occam during the initial five-year term of the amended agreement, which term ends on April 1, 2013. As of December 31, 2010, the Company has met this purchase commitment.

(21) Reorganization and Fresh Start Accounting Pro Forma Adjustments (Unaudited)

Upon confirmation of the Plan by the Bankruptcy Court and satisfaction of the remaining material contingencies to complete the implementation of the Plan, fresh start accounting principles are to be applied pursuant to the provisions of the Reorganizations Topic of the ASC. The Company will apply fresh start accounting on the Emergence Date. The financial statements as of January 24, 2011 and for subsequent periods will report the results of a new entity with no beginning retained earnings. Any presentation of the new reporting entity represents the financial position and results of operations of a new reporting entity and is not comparable to prior periods.

The Reorganizations Topic of the ASC provides, among other things, for a determination of the value to be assigned to the assets of the reorganized FairPoint as of a date selected for financial reporting purposes. In accordance with the Reorganizations Topic of the ASC, the results of operations of FairPoint prior to January 24, 2011 (the predecessor) will include (i) a pre-emergence gain of approximately $1,341.0 million resulting from the discharge of liabilities under the Plan; (ii) pre-emergence charges to earnings to be recorded as reorganization items resulting from certain costs and expenses relating to the Plan becoming effective; and (iii) a pre-emergence decrease in earnings of approximately $387.3 million resulting from the aggregate changes to the net carrying value of our pre-emergence assets and liabilities to reflect their fair values under fresh start accounting.

The Company's reorganization value is estimated to be approximately $2.5 billion. In accordance with fresh start accounting, the reorganization value was allocated to the Company's assets based on their respective fair values in conformity with the acquisition method of accounting for business combinations in the Business Combinations Topic of the ASC. The reorganization value represents the amount which approximates the fair value of the Company's assets.

The valuations required to determine the fair value of certain of the Company's assets as presented below represent the Company's preliminary estimates.

The adjustments presented below are presented on an unaudited pro-forma basis as of December 31, 2010 even though the actual date of emergence is January 24, 2011. Accordingly, these estimates are preliminary and subject to further revisions and adjustments, based on any updated valuations, actual amounts and applicable economic conditions as of January 24, 2011. The Company's actual fresh start accounting adjustments may vary significantly from those presented below.

The unaudited pro forma adjustments presented below summarize the impact of the Plan and the adoption of fresh start accounting as if the Effective Date had occurred on December 31, 2010.

FAIRPOINT COMMUNICATIONS, INC. AND SUBSIDIARIES
Pro Forma Reorganized Condensed Consolidated Balance Sheet
As of December 31, 2010
(in thousands, except share data)

	December 31, 2010	Reorganization Adjustments (Unaudited)	Fresh Start Adjustments (Unaudited)	Pro Forma Reorganized December 31, 2010 (Unaudited)
Assets				
Current assets:				
Cash	$ 105,497	(92,559)(a)	—	$ 12,938
Restricted cash	2,420	77,882(a)	—	80,302
Accounts receivable, net	125,170	—	—	125,170
Materials and supplies	22,193	—	(1,665)(c)	20,528
Prepaid expenses	18,841	—	(2,347)(c)	16,494
Other current assets	6,092	—	(4,672)(c)	1,420
Deferred income tax, net	31,400	—	—	31,400
Total current assets	**311,613**	**(14,677)**	**(8,684)**	**288,252**
Property, plant, and equipment, net	1,859,700	—	(83,600)(c)	1,776,100
Goodwill	595,120	—	(322,781)(c,d)	272,339
Intangible assets, net	189,247	—	(31,837)(c)	157,410
Prepaid pension asset	2,960	—	—	2,960
Debt issue costs, net	119	2,248(a,b)	—	2,367
Restricted cash	1,678	—	—	1,678
Other assets	13,357	—	(776)(c)	12,581
Total assets	**$ 2,973,794**	**(12,429)**	**(447,678)**	**$ 2,513,687**
Liabilities and Stockholders' Equity (Deficit)				
Liabilities not subject to compromise:				
Current portion of capital lease obligations	$ 1,321	—	—	$ 1,321
Accounts payable	66,557	(6,457)(a)	—	60,100
Claims payable and estimated claims accrual	—	93,583(a)	—	93,583
Accrued interest payable	3	—	—	3
Other accrued liabilities	63,279	(1,800)(a)	(4,671)(c)	56,808
Total current liabilities	**131,160**	**85,326**	**(4,671)**	**211,815**
Capital lease obligations	3,943	—	—	3,943
Accrued pension obligation	92,246	—	—	92,246
Employee benefit obligations	344,463	—	—	344,463
Deferred income taxes	67,381	336,401(a)	(61,265)(c,e)	342,517
Unamortized investment tax credits	4,310	—	(4,310)(c,e)	—
Other long-term liabilities	12,398	(2,094)(a)	9,914(c)	20,218
Long-term debt, net of current portion	—	1,000,000(a,b)	—	1,000,000
Total long-term liabilities	**524,741**	**1,334,307**	**(55,661)**	**1,803,387**
Total liabilities not subject to compromise	**655,901**	**1,419,633**	(60,332)	**2,015,202**
Liabilities subject to compromise	2,905,311	(2,905,311)(a)	—	—
Total liabilities	**3,561,212**	**(1,485,678)**	**(60,332)**	**2,015,202**
Stockholders' equity (deficit):				
Common stock, predecessor	894	(894)(a)	—	—
Additional paid-in capital, predecessor	725,786	(725,786)(a)	—	—
Common stock, successor	—	253(a)	—	253
Additional paid-in capital, successor	—	481,882(a)	—	481,882
Warrants, successor	—	16,350(a)	—	16,350
Retained deficit	(1,101,294)	1,701,444(a)	(600,150)(c)	—
Accumulated other comprehensive loss	(212,804)	—	212,804(c)	—
Total stockholders' equity (deficit)	**(587,418)**	**1,473,249**	**(387,346)**	**498,485**
Total liabilities and stockholders' equity (deficit)	**$ 2,973,794**	**(12,429)**	**(447,678)**	**$ 2,513,687**

(a) Represents amounts recorded for the implementation of the Plan on the Effective Date. This includes the settlement of liabilities subject to compromise, distributions of cash, authorization and partial distribution of shares of New Common

Stock, designation of restricted cash to satisfy allowed claims, the cancellation of predecessor Old Common Stock resulting in a gain of approximately $1,341.0 million on extinguishment of obligations pursuant to the Plan and the related tax effects.

(b) Records the issuance of senior secured debt and related debt financing. Debt issuance costs of $2.4 million related to both the Exit Term Loan and the Exit Revolving Facility are recorded in Debt issue costs, net and will be amortized over the terms of the respective agreements.

(c) Records the adjustments for fresh start accounting. This includes the adjustment of inventory and property, plant and equipment to appraised values. Fresh start adjustments for intangible assets, goodwill, and stockholders' equity are also included and are based on valuation studies. The fresh start adjustments also include the elimination of the predecessor retained deficit and accumulated other comprehensive loss.

(d) The goodwill of the predecessor has been eliminated and the reorganization value of the assets and liabilities in excess of fair market value has been allocated to long-term assets as shown above. The excess of the Company's reorganization value over the fair value of its assets is estimated to be approximately $272.3 million and is recorded as goodwill.

(e) Records the impact of fresh start accounting on the Company's deferred taxes.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

Not applicable.

ITEM 9A. CONTROLS AND PROCEDURES

(a) Evaluation of Disclosure Controls and Procedures

As of the end of the period covered by this Annual Report, we carried out an evaluation, under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, of the effectiveness of our "disclosure controls and procedures" (as defined in Rule 13a-15(e) of the Exchange Act). Our management, including our principal executive officer and principal financial officer, concluded that our disclosure controls and procedures were not effective as of December 31, 2010 because of the material weaknesses described below.

(b) Material Weaknesses in Internal Control Over Financial Reporting

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

A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement in the reporting company's annual or interim financial statements will not be prevented or detected on a timely basis.

Our management evaluated the effectiveness of our internal control over financial reporting as of December 31, 2010 based upon criteria in *Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on such evaluation, management determined that our internal control over financial reporting was not effective as of December 31, 2010 because the following material weaknesses in internal control over financial reporting existed during 2010:

1. Our information technology controls were not adequate. Specifically, our change management processes were not consistently followed to ensure all changes were appropriately authorized. In addition, access to our information systems was not appropriately restricted.
2. Our management oversight and review procedures designed to monitor the accuracy of period-end accounting activities were ineffective. Specifically, our account reconciliation processes were not adequate to properly identify and resolve discrepancies between our billing system and our general ledger in a timely manner. In addition, project accounting controls were not adequate to ensure charges to capital projects were appropriate or that projects were closed in a timely manner. Furthermore, procedures for the review of our income tax provision and supporting schedules were not adequate to identify and correct errors in a timely manner.

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

(c) Changes in Internal Control Over Financial Reporting

A number of control improvements have been implemented during 2010 and the subsequent period prior to this report. These improvements were designed to lessen the severity of the material weaknesses identified in prior periods and include:

- Improved controls over system access requests to ensure all requests are appropriately approved prior to processing.
- Enhanced password requirements related to the Oracle system to be in compliance with established guidelines.
- Improved reconciliation procedures over inventory, accounts payable, and payroll.

The following changes were implemented subsequent to year-end:

- Limited access to the privileged system account for our retail billing system.
- Revised user access responsibilities within the HR module of the Oracle system to eliminate segregation of duties issues in that module.

We continue to refine our processes to improve control and process effectiveness and efficiency. Such process refinements have been applied to virtually all processes for the Northern New England operations, including information technology, order provisioning, customer billing, payment processing, credit and collections, inventory management, accounts payable, payroll, human resource administration, tax and general ledger accounting.

With the exception of the foregoing, there have been no changes in our internal control over financial reporting during the year ended December 31, 2010 that have materially affected or are reasonably likely to materially affect our internal control over financial reporting. We do note however that subsequent to the year ended December 31, 2010, we implemented the remediation described above to partially address the material weaknesses in our internal control over financial reporting.

ITEM 9B. OTHER INFORMATION

Not applicable.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

Our board of directors currently consists of eight directors. Paul H. Sunu was appointed as our Chief Executive Officer and a member of our board of directors effective August 24, 2010. The remaining seven members of our board of directors were appointed in accordance with the Plan on the Effective Date. On the Effective Date, Edward D. Horowitz was appointed as the Chairman of our board of directors.

As of December 31, 2010, our board of directors consisted of five directors. David L. Hauser served as our Chief Executive Officer and Chairman of our board of directors until his resignation effective August 24, 2010. At that time, Jane E. Newman was appointed as Chairman of our board of directors. Mr. Hauser's resignation reduced our board of directors from six members to five members.

We do not intend to hold an annual meeting of stockholders during 2011. In accordance with the Second Amended and Restated By-Laws, the initial members of the New Board are expected to hold office until the first annual meeting of stockholders which will be held following the one year anniversary of the Effective Date. Thereafter, members of the board of directors of the Company are expected to have one year terms, so that their terms will expire at each annual meeting of stockholders.

Director Independence

The board of directors considered transactions and relationships between each director or any member of his or her immediate family and the Company and its subsidiaries and affiliates. Our board of directors has determined that, other than Paul H. Sunu, all of our directors are independent under the criteria for independence set forth in the listing standards of the NASDAQ, and accordingly are independent directors with no material relationship to the Company other than being a director or stockholder of FairPoint Communications.

Directors

The following sets forth selected biographical information for our directors.

Edward D. Horowitz - Chairman of the Board of Directors — Mr. Horowitz currently serves as the chairman of EdsLink LLC, a New York City based venture capital firm, which he founded in 2000. Mr. Horowitz served as president and chief executive officer, SES—Americom, a communications satellite operator, and as a member of the executive committee of its parent company, SES (SESG, Lux.) from 2005 to 2008. Before founding EdsLink LLC, Mr. Horowitz was executive vice president of Advanced Development at Citigroup from 1997 through 2000 and was the founder and chairman of e-Citi. Prior to joining Citigroup, from 1989 to 1997, Mr. Horowitz was a senior vice president of Viacom Inc. and a member of the operating committee. Mr. Horowitz serves as a director of On Line Resources Corporation (NASDAQ: ORCC), the Kenan Institute of Ethics at Duke University and is a trustee of the New York Hall of Science. He received a Bachelor of Science degree in physics from the City College of New York and a Master of Business Administration degree from the Columbia University School of Business.

Todd W. Arden— Mr. Arden joined Angelo, Gordon & Co. in 2000, and is currently a managing director in its distressed securities group. Prior to joining Angelo, Gordon, Mr. Arden served as a portfolio manager/analyst within AIG SunAmerica Inc.'s high yield group from 1998 to 2000. Previously, he was a senior equity analyst at Troubh Partners from 1995 to 1997. Mr. Arden began his career as a manager in Arthur Andersen LLP's financial consulting services practice from 1989 to 1995, concentrating in the distressed/litigation support area. Arden is a chartered financial analyst and holds a Bachelor of Arts degree from Northwestern University and a Master of Business Administration degree from the Columbia University School of Business.

Dennis J. Austin - Mr. Austin has served as an independent telecommunications consultant since 2002. Mr. Austin previously served as a consultant at BearingPoint, formerly KPMG Consulting and formerly KPMG LLP, from 1995 to 2002, and as vice president at San Francisco Consulting Group ("SFCG") from 1985 to 1995. Prior to joining SFCG, Mr. Austin was vice president of engineering with Dataspeed Inc. from 1983 to 1985 and director of switch engineering, network planning and design at GTE Sprint from 1977 to 1983. Prior to joining GTE Sprint, Mr. Austin served as a member of the technical staff with Bell Telephone Laboratories from 1966 to 1977. Mr. Austin holds a Ph.D. in electrical engineering from Stanford University.

Michael J. Mahoney - Mr. Mahoney previously served as president and chief executive officer of Commonwealth Telephone Enterprises, Inc. ("Commonwealth Telephone") from 2000 to 2007. Prior to joining Commonwealth Telephone, Mr. Mahoney served as president and chief operating officer of RCN Corporation from 1997 to 2000 and as president and chief operating officer of C-TEC Corporation from 1993 to 1997. Mr. Mahoney currently serves as a director of Level 3 Communications and as a trustee of Wilkes University. He received a Bachelor of Science degree in accounting from Villanova University.

Michael K. Robinson - Mr. Robinson has served as president and chief executive officer since 2005 and as a director since 2009, of Broadview Networks. Mr. Robinson previously served as executive vice president and chief financial officer of US LEC (which is now part of PAETEC) from 1998 to 2005. Prior to 1998, Mr. Robinson spent 10 years as an executive at Alcatel (now Alcatel Lucent). Mr. Robinson received a bachelor's degree in Business and Economics from Emory & Henry College and a Master of Business Administration degree from Wake Forest University.

Paul H. Sunu — Mr. Sunu has served as chief executive officer of FairPoint Communications Inc. since August 2010, prior to which he was chief financial officer of Hargray Communications Group, Inc., a position he had held since 2008. Mr. Sunu was chief financial officer of Hawaiian Telcom from 2007 to 2008 and a managing director and chief financial officer of Madison River Communications from 1996 to 2007. He currently serves as a director of Integra Telecom and is a former board member of Madison River Communications Corp., Merscom and Centennial Communications Corp. He received a Bachelor of Arts degree in public administration from the University of Illinois and a J.D. from the University of Illinois College of Law.

David L. Treadwell - Mr. Treadwell has served as president and chief executive officer of EP Management Corporation, formerly known as EaglePicher Corporation, since 2006. Treadwell was EaglePicher Incorporated's chief operating officer from 2005 to 2006 and served as chief executive officer of Oxford Automotive through its restructuring in 2004 to 2005. Mr. Treadwell currently serves as lead director of Flagstar Bank and chairman of the board of C&D Technologies. He received a Bachelor of Business Administration degree from the University of Michigan, Ann Arbor.

Wayne Wilson — Mr. Wilson, a New Hampshire resident, has been an independent business advisor since 2002. From 1995 to 2002, Mr. Wilson served in various roles as president, chief operating officer and chief financial officer of PC Connection, Inc., a Fortune 1000 direct marketer of information technology products and services. From 1986 to 1995, Mr. Wilson was a partner in the assurance and advisory services practice of Deloitte & Touche LLP. Mr. Wilson currently serves as a director of ARIAD Pharmaceuticals, Inc., Edgewater Technology, Inc. and Hologic, Inc. He previously served as a director of Cytyc Corporation. Mr. Wilson received a Bachelor of Arts degree in political science from Duke University, and a Masters of Business Administration degree from the University of North Carolina at Chapel Hill. He is a certified public accountant in New Hampshire and North Carolina.

Committees of the Board of Directors

Our board of directors has four separately designated standing committees: an audit committee, a compensation committee, a corporate governance and nominating committee and a regulatory committee.

Audit Committee

As of the Effective Date, our audit committee consists of Michael J. Mahoney, Michael K. Robinson and Wayne Wilson. Mr. Wilson is the chair of our audit committee. All such audit committee members satisfy the independence criteria set forth in the listing standards of the NASDAQ and the applicable provisions of the Exchange Act. Mr. Wilson is qualified as an audit committee financial expert within the meaning of item 407(d)(5)(ii) of Regulation S-K under the Exchange Act and our board of directors has determined that he has the requisite accounting and related financial management expertise within the meaning of the listing standards of the NASDAQ. The SEC has determined that the audit committee financial expert designation does not impose on the person with that designation any duties, obligations or liability that are greater than the duties, obligations or liability imposed on such person as a member of the audit committee of the board of directors in the absence of such designation.

Our audit committee during 2010 consisted of Thomas F. Gilbane, Jr., Robert S. Lilien and Claude C. Lilly, and met seven times during 2010. Claude C. Lilly was the chair of our audit committee during 2010. All such audit committee members satisfied the independence criteria set forth in the listing standards of the NYSE and the applicable provisions of the Exchange Act. Mr. Lilien was qualified as an audit committee financial expert within the meaning of item 407(d)(5)(ii) of Regulation S-K under the Exchange Act and our board of directors has determined that he has the requisite accounting and related financial management expertise within the meaning of the listing standards of the NYSE. The SEC has determined that the audit committee financial expert designation does not impose on the person with that designation any duties, obligations or liability that are greater than the duties, obligations or liability imposed on such person as a member of the audit committee of the board of directors in the absence of such designation.

Among other functions, the principal duties and responsibilities of our audit committee are to select and appoint our independent registered public accounting firm, oversee the quality and integrity of our financial reporting and the audit of our financial statements by our independent registered public accounting firm and, in fulfilling its obligations, our audit committee reviews with our management and independent registered public accounting firm the scope and results of the annual audit, our accounting firm's independence and our accounting policies.

The audit committee is required to report regularly to our board of directors to discuss any issues that arise with respect to the quality or integrity of our financial statements, our compliance with legal or regulatory requirements, the performance and independence of our independent registered public accounting firm, and the performance of the internal audit function.

A copy of our audit committee charter can be found on our website at www.fairpoint.com on the "Investors" page, under the "Corporate Governance" caption. In addition, a copy of our audit committee charter is available free of charge upon request directed to our secretary at: Secretary, FairPoint Communications, Inc., 521 East Morehead Street, Suite 500, Charlotte, North Carolina 28202.

Compensation Committee

As of the Effective Date, our compensation committee consists of Todd W. Arden, Edward D. Horowitz and David L. Treadwell. Mr. Horowitz is the chair of our compensation committee. All such compensation committee members satisfy the independence criteria set forth in the listing standards of the NASDAQ.

Our compensation committee during 2010 consisted of Thomas F. Gilbane, Jr., Jane E. Newman, and Michael R. Tuttle and met six times during 2010. Thomas F. Gilbane, Jr. was the chair of our compensation committee during fiscal 2010. All such compensation committee members satisfied the independence criteria set forth in the listing standards of the NYSE. Among other functions, our compensation committee oversees the compensation of our Chief Executive Officer and other executive officers, including plans and programs relating to cash compensation, incentive compensation, equity based awards and other benefits and perquisites and administers any such plans or programs as required by the terms thereof.

A copy of our compensation committee charter can be found on our website at www.fairpoint.com on the "Investors" page, under the "Corporate Governance" caption. In addition, a copy of our compensation committee charter is available free of charge upon request directed to our secretary at: Secretary, FairPoint Communications, Inc., 521 East Morehead Street, Suite 500, Charlotte, North Carolina 28202.

Corporate Governance and Nominating Committee

As of the Effective Date, our corporate governance and nominating committee consists of Edward D. Horowitz, David L. Treadwell and Wayne Wilson. Mr. Treadwell is the chair of our corporate governance committee. All such corporate governance committee members satisfy the independence criteria set forth in the listing standards of the NASDAQ.

Our corporate governance committee during 2010 consisted of Claude C. Lilly, Jane E. Newman and Michael R. Tuttle, and met once during 2010. Michael R. Tuttle was the chair of our corporate governance and nominating committee during fiscal 2010. All such corporate governance committee members satisfied the independence criteria set forth in the listing standards of the NYSE. Among other functions, the principal duties and responsibilities of our corporate governance committee are to identify qualified individuals to become board members, recommend to our board of directors individuals to be designated as nominees for election as directors at the annual meetings of stockholders, and develop and recommend to our board of directors our corporate governance guidelines.

A copy of our corporate governance and nominating committee charter can be found on our website at www.fairpoint.com on the “Investors” page, under the “Corporate Governance” caption. In addition, a copy of our corporate governance and nominating committee charter is available free of charge upon request directed to our secretary at: Secretary, FairPoint Communications, Inc., 521 East Morehead Street, Suite 500, Charlotte, North Carolina 28202.

Regulatory Committee

Effective as of the Effective Date, our board of directors has chartered a regulatory committee to oversee the Company’s compliance with regulatory requirements and reporting.

As of the Effective Date, our regulatory committee consists of Dennis J. Austin, Michael J. Mahoney and Michael K. Robinson. Mr. Mahoney is the chair of our regulatory committee.

A copy of our regulatory committee charter can be found on our website at www.fairpoint.com on the “Investors” page, under the “Corporate Governance” caption. In addition, a copy of our regulatory committee charter is available free of charge upon request directed to our secretary at: Secretary, FairPoint Communications, Inc., 521 East Morehead Street, Suite 500, Charlotte, North Carolina 28202.

Attendance of Directors

During 2010, the board of directors held twenty-three meetings. Each then-current director attended at least 75% of the aggregate of the total number of meetings held by the board of directors and the total number of meetings held by all committees of the board of directors on which he or she served, which meetings were held when he or she was a director.

Security Ownership of Certain Beneficial Owners

Section 16(a) of the Securities Exchange Act of 1934 requires our officers and directors, and persons who own, or are part of a group that owns, more than ten percent of a registered class of our equity securities, to file reports of ownership and changes in ownership with the SEC and if listed on a national exchange, such national exchange. Officers, directors and beneficial owners of more than 10% of our common stock are required by regulation of the SEC to furnish us with copies of all Section 16(a) forms they file. See “Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters — Security Ownership of Certain Beneficial Owners.”

Corporate Governance

Code of Business Conduct and Ethics. We have adopted a code of business conduct and ethics that applies to all of our employees, including our principal executive officer, principal financial officer and principal accounting officer. This code of business conduct and ethics is designed to comply with the SEC regulations and the Nasdaq listing standards related to codes of conduct and ethics and is posted on our corporate website at www.fairpoint.com on the “Investors” page, under the “Corporate Governance” caption. A copy of our code of business conduct and ethics is available free of charge upon request directed to our secretary at: Secretary, FairPoint Communications, Inc., 521 East Morehead Street, Suite 500, Charlotte, North Carolina 28202.

Code of Ethics for Financial Professionals. We have also adopted a code of ethics for financial professionals as required by the SEC under Section 406 of the Sarbanes-Oxley Act. This code sets forth written standards that are designed to deter wrongdoing and to promote honest and ethical conduct by our senior financial officers, including our Chief Executive Officer, and is a supplement to our code of business conduct and ethics. In addition to applying to our Chief Executive Officer, Chief Financial Officer, Chief Accounting Officer, and Treasurer, this code applies to all of the other persons employed by us who have significant responsibility for preparing or overseeing the preparation of our financial statements and the other financial data included in our periodic reports to the SEC and in other public communications made by us that are designated from time to time by our Chief Financial Officer as senior financial professionals. Our code of ethics for financial professionals is posted on our corporate website at www.fairpoint.com on the "Investors" page, under the "Corporate Governance" caption.

Corporate Governance Guidelines. We have also adopted corporate governance guidelines to advance the functioning of our board of directors and its committees and to set forth our board of directors' expectations as to how it should perform its functions. Our corporate governance guidelines are posted on our corporate website at www.fairpoint.com on the "Investors" page, under the "Corporate Governance" caption. A copy of our corporate governance guidelines is available free of charge upon request directed to our secretary at: Secretary, FairPoint Communications, Inc. 521 East Morehead Street, Suite 500, Charlotte, North Carolina 28202.

Policies Relating to our Board of Directors

Nomination and Selection of Directors

Our corporate governance and nominating committee identifies and evaluates potential director candidates in a variety of ways. Recommendations may come from current members of our board of directors, professional search firms, members of management, stockholders or other persons. In assessing the qualifications of potential nominees, the corporate governance and nominating committee may rely on personal interviews or discussions with the candidate and others familiar with the candidate's professional background, on third-party background and reference checks and on such other due diligence information as is reasonably available. The corporate governance committee must be satisfied that the candidate possesses the highest professional and personal ethics and values and has broad experience at the policy-making level in business, government, education or public interest before the corporate governance and nominating committee will recommend a candidate as a nominee to our board of directors.

Communications with Board of Directors

Our board of directors has adopted policies with respect to the consideration of candidates recommended by stockholders for election as well as for director and stockholder communications with the board of directors.

Stockholders may recommend nominees for consideration by the corporate governance and nominating committee by submitting the names and the following supporting information to our secretary at: Secretary, Stockholder Nominations, FairPoint Communications, Inc., 521 East Morehead Street, Suite 500, Charlotte, North Carolina 28202. The submissions should include a current resume of the candidate and a statement describing the candidate's qualifications and contact information for the candidate. The submission should also include the name and address of the stockholder who is submitting the nominee, the number of shares which are owned of record or beneficially by the submitting stockholder and a description of all arrangements or understandings between the submitting stockholder and the nominee.

Stockholders and other interested parties may communicate directly with our board of directors or the non-management directors. All communications should be in writing and should be directed to our secretary at: Secretary, Stockholder Communications, FairPoint Communications, Inc., 521 East Morehead Street, Suite 500, Charlotte, North Carolina 28202. The sender should indicate in the address whether it is intended for the entire board of directors, the non-management directors as a group or an individual director. Each communication intended for the board of directors or non-management directors received by the secretary will be forwarded to the intended recipients in accordance with the submitted instructions.

The full text of the stockholder nominations and communications policy is available on our corporate website at www.fairpoint.com on the "Investors" page, under the "Corporate Governance" caption.

Lead Director and Private Sessions

During the period of time that our Chief Executive Officer served as the Chairman of our board of directors, the non-management directors regularly met in private session without our Chairman and Chief Executive Officer. Our lead director presided at these non-management executive sessions. Jane E. Newman served as our lead director in 2010, prior to becoming the Chairman of our board of directors on August 24, 2010. As of the Effective Date, Edward D. Horowitz, our non-employee Chairman of our board of directors, presides over all meetings.

Director Attendance at Annual Meeting of Stockholders

We do not have a formal policy regarding attendance by directors at our annual meeting of stockholders but invite and encourage all directors to attend. The annual meeting of stockholders is also generally held in conjunction with a regularly scheduled board of directors meeting to encourage director attendance. We did not hold an annual meeting of stockholders in 2010.

ITEM 11. EXECUTIVE COMPENSATION

Compensation Discussion and Analysis

General Program Objectives

The compensation committee's principal objective in designing compensation policies is to develop and administer a comprehensive program to attract, motivate and retain outstanding executives who are likely to enhance our profitability and create value for our stockholders. Within this overall compensation philosophy, the compensation committee seeks to: (1) recognize and reward sustained superior performance by individual officers and key employees; (2) pay for performance on both an individual and corporate level; (3) align stockholder and executive interests by placing a significant portion of executive compensation "at risk"; (4) tie executive compensation to the achievement of certain short-term and long- term performance objectives of the Company; and (5) offer a total compensation program that takes into account the compensation practices of comparable companies.

The compensation committee intends to provide our named executive officers ("NEOs") with an executive compensation program that emphasizes performance. The program therefore combines a competitive base salary component with a significant amount of variable compensation in the form of performance based annual and long-term incentives. The compensation committee believes this emphasis on performance aligns the compensation of our NEOs with the long-term interests of our stockholders.

The compensation committee, in 2010, had engaged and regularly consulted an independent consultant, Findley Davies, Inc., to review the competitiveness and structure of the executive compensation program and each component of the program, and to assist the compensation committee in ensuring that the executive compensation program achieves the compensation committee's objectives. Findley Davies, Inc. does not provide any services to the Company other than the services it provides to the compensation committee.

During 2010, the compensation committee also engaged Mercer HR Consulting to assist with the design and terms of the new 2010 Long Term Incentive Plan and the Success Bonus Plan, each of which became effective as of the Effective Date. Mercer HR Consulting has been retained by the Company to provide actuarial and employee benefit consulting services for the Company's retirement and group medical plans. The aggregate fees paid to Mercer in 2010 were $125,000 for executive compensation consulting service and $261,000 for actuarial and employee benefit consulting services.

Specific Principles for Determining Executive Compensation

The table below identifies and explains the reason for each component of our executive compensation program. See "—Executive Compensation Decisions for 2010" for amounts and further detail.

Element:	Reason for Element
Salary	The compensation committee establishes the base salaries for our NEOs as fixed amounts to provide a reliable indication of the minimum amount of compensation each NEO will receive in a given year.
Annual Incentives	We maintain an Annual Incentive Plan under which our NEOs and other key employees may earn annual cash incentives based on corporate and individual performance. The Annual Incentive Plan is designed to provide an incentive for executives to attain short-term goals. The compensation committee establishes and approves the goals of the Chief Executive Officer and the Chief Executive Officer approves the goals of the other NEOs and the compensation committee reviews them.
Long Term Incentives/Equity Awards	We adopted the 2010 Long Term Incentive Plan effective as of the Effective Date that allows for a variety of stock-based awards to link employee compensation to stockholders' interests and encourage the creation of long-term value for our stockholders by increasing the retention of qualified key employees.
Deferred Compensation	We have maintained a Non-Qualified Deferred Compensation Plan, which we refer to as the NQDC Plan, which covers certain employees. The NQDC Plan allows senior management employees to defer additional compensation beyond the contribution limitations of the 401(k) plan. Company matching contributions are made according to the same percentage of deferrals as is made under our 401(k) plan, but only with respect to compensation that exceeds the limits for the 401(k) plan, up to the maximum allowed contribution.
Welfare Benefits	We provide, on equal terms for all employees, group term life insurance, group health insurance, and short-term and long-term disability insurance.
Post-employment Benefits	*Retirement*. We maintain a 401(k) retirement savings plan that in 2010 included an employer matching contribution up to an amount equal to 5% of each participant's compensation. *Severance and Change in Control Benefits*. We provide severance benefits to certain NEOs at levels that we consider conservative yet competitive when compared to those offered by our peers. We believe that such benefits are necessary and appropriate in order to attract and retain qualified NEOs.
Success Bonus Plan	We adopted the Success Bonus Plan effective as of the Effective Date that allowed us to pay one-time cash bonuses to our NEOs and other key employees based on certain performance measures, subject to upward or downward adjustment to reflect the timing of the Effective Date.

Method for Determining Amounts

Base Salary

The compensation committee determines the level of base salary for our Chief Executive Officer and the other executive officers with the general goal of providing competitive salaries. In making its decisions, the compensation committee considers independent studies and surveys prepared by consultants based on publicly available information with respect to other comparable communications companies. In addition, with respect to each executive officer, including the Chief Executive Officer, the compensation committee considers the individual's performance, including that individual's total level of experience in the communications industry, his or her record of performance and contribution to our success relative to his or her job responsibilities and annual goals, as well as his or her overall service to the Company.

Annual Incentive Compensation Awards

The annual incentive awards are based on a combination of corporate and individual goals having specific financial and operational objectives. We generally establish bonus targets and performance criteria at the end of each year for the following year.

Deferred Compensation

We have maintained a nonqualified deferred compensation plan (the "NQDC Plan") for NEOs and other select senior management to enable them to defer compensation in excess of the limits applicable to them under our 401(k) plan. Matching contributions are made to the NQDC Plan according to the same percentage of deferrals as is made under our 401(k) plan, but only with respect to compensation that exceeds the limits for the 401(k) plan.

Retirement and Welfare Benefits

Our NEOs participate in our broad-based 401(k) and welfare benefit plans, and thereby receive, for example, group health insurance, group term life insurance and short-term and long-term disability insurance. The costs of these benefits constitute only a small percentage of each executive officer's total compensation.

Post-employment Severance and Change-in-Control Benefits

We provide post-employment severance and change-in-control benefits to Mr. Sunu, pursuant to an employment agreement, and to Messrs. Sabherwal and Nixon and Ms. Linn, pursuant to change in control and severance agreements. See "—Potential Payments Upon Termination or Change of Control." We also provide post-employment severance and change-in-control benefits to certain other non-NEO executives. The severance benefits for these executives are generally paid only if the executives are terminated without cause and they do not voluntarily resign. The severance benefits are also provided if any termination of employment occurs because of a change in control.

Executive Compensation Decisions for 2010

Explained below are the key components of the compensation that our NEOs earned in 2010 as shown in the "Summary Compensation Table." Their base salaries generally accounted for between 24% and 95% of their total potential compensation, while incentive compensation accounted for most of the remainder of their total potential compensation. In addition, Mr. Hauser received approximately $1.6 million in 2010 under a consulting agreement with the Company subsequent to his resignation. The compensation committee believes that the balance described below of 2010 levels for salary, annual cash incentive awards and other benefits reflect both (i) an appropriate performance-oriented structure for total compensation, and (ii) a suitable correlation of total NEO compensation to the Company's financial and business performance in 2010.

Pursuant to the Plan, all outstanding equity interests of the Company, including but not limited to all outstanding shares of common stock, options and contractual or other rights to acquire any equity interests, were canceled and extinguished on the Effective

Date. In addition, on the Effective Date, the Company was deemed to have adopted the 2010 Long Term Incentive Plan and the Success Bonus Plan without any further action by the Company. On the Effective Date, in accordance with the Plan, (i) management and other employees of the Company received certain cash bonuses pursuant to the Success Bonus Plan and (ii) certain equity awards pursuant to the 2010 Long Term Incentive Plan were made. See "Item 1. Business—Emergence from Chapter 11 Proceedings—New Long Term Incentive Plan and Success Bonus Plan."

Base Salary

None of the NEOs received a base salary increase in 2010.

Annual Incentive Compensation Awards

The compensation committee established the 2010 target bonuses and related performance goals for certain members of our senior management under the FairPoint Communications, Inc. Annual Incentive Plan, or the Annual Incentive Plan, on March 2, 2010.

The NEOs' 2010 performance goals for bonus awards include the following: (i) quarterly financial performance targets, which are calculated by subtracting Consolidated Capital Expenditures ("CAPEX") (as defined in the Debtor-in-Possession Credit Agreement, dated as of October 27, 2009, by and among the Company, FairPoint Logistics, Inc., the lenders party thereto and Bank of America, N.A., as administrative agent (the "DIP Credit Agreement")) from Consolidated EBITDAR (as defined in the DIP Credit Agreement) (the "EBITDAR Minus CAPEX Targets"), and which are based on an annual EBITDAR Minus CAPEX Target of $165.6 million for the year ended December 31, 2010; (ii) the Company achieving an average monthly target of 77.5% for customer service calls that are answered within 20 seconds (the "Call Center Service Target") at the Company's consumer, business, collections and repair call centers in Maine, New Hampshire and Vermont (collectively, "Northern New England"); (iii) the Company achieving an average monthly target of 12.0% for installation appointments in Northern New England that are not met for Company reasons (the "Installation Appointment Target"); and (iv) the Company achieving an average on-time target of 90.0% for repair appointments in Northern New England (the "Repair Appointment Target"). These same 2010 performance goals are applicable to all non-represented employees and some represented employees of the Company except commissioned sales employees.

David L. Hauser, the Company's Chief Executive Officer, was eligible for a target bonus of up to 100% of his 2010 annual base salary. The target bonus for Mr. Hauser was based on the Company's ability to achieve the following, tested quarterly (weighted as indicated): (i) 67% — the EBITDAR Minus CAPEX Targets; (ii) 11% — the Call Center Service Target; (iii) 11% — the Installation Appointment Target; and (iv) 11% — the Repair Appointment Target.

Peter G. Nixon, the Company's President, Ajay Sabherwal and Alfred C. Giammarino, each the Company's Executive Vice President and Chief Financial Officer, Shirley J. Linn, the Company's Executive Vice President, General Counsel and Secretary, and Raymond C. Allieri, the Company's Executive Vice President and Chief Strategy Officer, were each eligible for a target bonus of up to 50% of his or her 2010 annual base salary. Lisa R. Hood, the Company's Senior Vice President and Controller, was eligible for a target bonus of up to 40% of her 2010 annual base salary. The target bonus for each of these officers was based on the same criteria as set forth above for Mr. Hauser.

Previously, the Annual Incentive Plan provided for a single lump sum payment of bonus awards. The compensation committee amended the Annual Incentive Plan to provide for quarterly payments of bonus awards for 2010. Such quarterly payments were made to the NEOs (and all non-represented employees of the Company except commissioned sales employees) at 50% of the quarterly target payment amount provided that the quarterly targets are met, with true-up payments to be included in bonus awards for the full 2010 year.

Compensation of Messrs. Hauser and Sunu

On August 24, 2010, the Bankruptcy Court approved a proposed (i) consulting agreement with David L. Hauser, the Company's then Chairman and Chief Executive Officer, and (ii) employment agreement with Paul H. Sunu. The compensation committee had negotiated the proposed agreements in connection with the transition of the Chief Executive Officer role from Mr. Hauser to Mr.

Sunu. Accordingly, effective as of August 24, 2010, Mr. Hauser resigned as the Company's Chairman and Chief Executive Officer and as a director and became a consultant to the Company. In addition, effective as of August 24, 2010, the Board appointed Mr. Sunu to serve as the Company's Chief Executive Officer and as a director and the Company and Mr. Sunu entered into the employment agreement.

The consulting agreement sets forth the terms and conditions of Mr. Hauser's retention as a consultant by the Company for a term commencing on August 24, 2010 and expiring on the Effective Date. Pursuant to the consulting agreement, Mr. Hauser received a cash consulting fee of $3,450,000 and a one-time grant following the Effective Date of 66,794 shares of the reorganized Company's common stock pursuant to the terms of the New Long Term Incentive Plan. The shares were fully vested on the date of grant. In addition, pursuant to the consulting agreement, Mr. Hauser was eligible to continue participating in the Company's health insurance plan for a period of ninety days and thereafter received a cash payment equal to the cost of COBRA medical insurance, group life insurance and long-term disability insurance coverage for an additional period of two years.

The employment agreement sets forth the terms and conditions of Mr. Sunu's employment as Chief Executive Officer of the Company for a three-year term commencing on August 24, 2010. Pursuant to the Employment Agreement, Mr. Sunu will receive an annual base salary of $750,000 and a one-time signing bonus of $500,000. Mr. Sunu will also be eligible to participate in the Company's annual incentive plan and eligible to earn a performance-based bonus thereunder for annual performance periods beginning in calendar year 2011. Mr. Sunu's maximum bonus under the annual incentive plan will be 150% of the base salary payable to him during the applicable performance period.

Following the Effective Date, Mr. Sunu was granted 120,000 restricted shares of the reorganized Company's common stock and options to purchase 125,000 shares of such common stock. The exercise price of the stock options will be equal to the lesser of (i) $36.03 per share or (ii) the weighted average trading price of a share of common stock for the first 20 trading days following the Effective Date, but in no event less than $19.28 per share. The exercise price of the stock options was set at $24.29 in accordance with the New Long Term Incentive Plan agreement. Twenty-five percent of each of the restricted shares and the options were vested as of the date of grant, and the remaining restricted shares and options will vest thereafter in three substantially equal vesting tranches on each of the first three anniversaries of the Effective Date, subject to Mr. Sunu's continued employment with the Company through each such vesting date.

Mr. Sunu also participated in the FairPoint Communications, Inc. 2010 Success Bonus Plan and was eligible for a success bonus equal to fifty percent of his annual base salary if the Company performs at Target performance levels, as such Target is defined under the Success Bonus Plan approved by the Bankruptcy Court. Mr. Sunu received a payment in accordance with the Success Bonus Plan in February 2011.

Mr. Sunu will be eligible to participate in the benefits programs generally available to the Company's other senior executives.

Tax Considerations

Section 162(m) of the Internal Revenue Code (the "Code") generally disallows a tax deduction to public corporations for compensation, other than performance based compensation, over $1.0 million paid for any fiscal year to any of the corporation's Chief Executive Officer and three other highly compensated executive officers as of the end of any fiscal year. The Company's policy is to qualify its executive officers for deductibility under Section 162(m) to the extent the compensation committee determines such to be appropriate. In 2010, compensation did not exceed the deductibility limits of Section 162(m) for any NEO. The compensation committee remains aware of the Code Section 162(m) limitations and the available exemptions and special rules, and will address the issue of 162(m) deductibility when and if circumstances warrant the use of such exemptions or other considerations.

Summary Compensation Table

The table below summarizes the total compensation paid or earned by each of the NEOs for the fiscal years ended December 31, 2010, 2009 and 2008.

(a) Name and Principal Position	(b) Year	(c) Salary $	(d) Bonus $	(e) Stock Awards $(1)	(f) Option Awards $(1)	(g) Non-Equity Incentive Plan Compensation $	(h) Change in Pension Value and Nonqualified Deferred Compensation Earnings $	(i) All Other Compensation $(2)	(j) Total $
Paul H. Sunu (3) Chief Executive Officer	2010	268,269	—	—	—	—	—	507,632	775,901
David L. Hauser (3) Chairman of the Board of Directors and Chief Executive Officer	2010	523,077	60,923	—	—	—	—	1,608,472	2,192,472
	2009	409,231	—	1,814,349	55,520	—	—	12,602	2,291,702
Ajay Sabherwal (4) Executive Vice President, Chief Financial Officer	2010	170,769	5,870	—	—	—	—	27,183	203,822
Alfred C. Giammarino (4) Executive Vice President, Chief Financial Officer	2010	114,561	—	—	—	—	—	7,026	121,587
	2009	401,923	—	236,180	—	—	—	12,634	650,737
	2008	109,615	9,591	738,261	—	—	—	23,757	881,224
Peter G. Nixon President	2010	325,000	19,594	—	—	—	—	15,392	359,986
	2009	343,750	—	201,996	—	—	—	19,165	564,911
	2008	303,481	103,109	484,155	—	—	—	19,167	909,912
Shirley J. Linn Executive Vice President, General Counsel and Secretary	2010	300,000	18,087	—	—	—	—	17,111	335,198
	2009	317,308	—	186,458	—	—	—	17,801	521,567
	2008	278,291	109,244	445,724	—	—	—	19,116	852,375
Lisa R. Hood (4) Senior Vice President and Controller	2010	310,308	16,393	—	—	—	—	7,375	334,076
	2009	243,269	—	71,476	—	—	—	12,968	327,713
	2008	223,435	54,047	185,388	—	—	—	14,206	477,076
Raymond C. Allieri Executive Vice President and Chief Strategy Officer	2010	250,178	11,106	—	—	—	—	321,909	583,193

(1) The amounts in columns (e) and (f) are the grant date fair value of the stock and option awards, adjusted to eliminate the effect of any forfeiture assumption, computed in accordance with the Compensation—Stock Compensation Topic of the ASC. Grant date fair value of awards granted prior to the Merger have been adjusted to reflect the fair value of the award immediately following the Merger. Please see note 15 to the consolidated financial statements

for more information about the assumptions FairPoint used to determine the grant date value of the awards

(2) The amount shown in column (i) for 2010 reflects the following for each NEO:

- Matching contributions made by FairPoint to its 401(k) retirement savings plan in the amounts of $5,769 for Mr. Sunu, $12,250 for Mr. Hauser, $2,135 for Mr. Sabherwal, $5,728 for Mr. Giammarino, $10,619 for Mr. Nixon, $10,379 for Ms. Linn, $6,306 for Ms. Hood and $11,718 for Mr. Allieri;
- Contributions made by FairPoint to the term life insurance plans it sponsors for all eligible employees (including our NEOs) in the amounts of $1,863 for Mr. Sunu, $6,579 for Mr. Hauser, $587 for Mr. Sabherwal, $1,298 for Mr. Giammarino, $4,773 for Mr. Nixon, $6,732 for Ms. Linn, $1,069 for Ms. Hood and $1,805 for Mr. Allieri;
- A one-time signing bonus of $500,000 paid to Mr. Sunu, in accordance with his employment agreement, upon commencement of his employment.
- Relocation expenses reimbursed by FairPoint in the amounts of $24,461 for Mr. Sabherwal and $40,149 for Mr. Allieri;
- Severance pay in the amount of $268,237 for Mr. Allieri.
- Consulting services fees in the amount of $1,589,643 for Mr. Hauser.

(3) Mr. Sunu was appointed as our Chief Executive Officer on August 24, 2010, succeeding Mr. Hauser, who resigned effective August 24, 2010.

(4) Mr. Sabherwal was appointed Chief Financial Officer on July 19, 2010, succeeding Ms. Hood. Ms. Hood was appointed Chief Financial Officer on an interim basis on March 31, 2010, succeeding Mr. Giammarino, who resigned effective March 30, 2010.

Grants of Plan-Based Awards

No plan-based awards were granted during the year ended December 31, 2010.

Pursuant to the Plan, all outstanding equity interests of the Company, including but not limited to all outstanding shares of common stock, options and contractual or other rights to acquire any equity interests, were cancelled and extinguished on the Effective Date. See “Item 1. Business—Bankruptcy—The Plan—New Long Term Incentive Plan and Success Bonus Plan.”

Outstanding Equity Awards at December 31, 2010

The following table shows the equity-based awards held by the NEOs as of December 31, 2010. Pursuant to the Plan, all outstanding equity interests of the Company, including but not limited to all outstanding shares of common stock, options and contractual or other rights to acquire any equity interests, were cancelled and extinguished on the Effective Date. See “Item 1. Business—Bankruptcy—The Plan—New Long Term Incentive Plan and Success Bonus Plan.”

(a)		Option Awards					Stock Awards			
		(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)	(j)
Name	Grant Date	Number of Securities Underlying Unexercised Options (#) Exercisable	Number of Securities Underlying Unexercised Options (#) Unexercisable	Equity Incentive Plan Awards: Number of Securities Underlying Unexercised Unearned Options (#)	Option Exercise Price ($)	Option Expiration Date	Number of Shares or Units of Stock That Have Not Vested (#)	Market Value of Shares or Units of Stock That Have Not Vested ($)	Equity Incentive Plan Awards: Number of Unearned Shares, Units or Other Rights That Have Not Vested (#)	Equity Incentive Plan Awards: Market or Payout Value of Unearned Shares, Units or Other Rights That Have Not Vested ($)
Paul H. Sunu Chief Executive Officer	—	—	—	—	—	—	—	—	—	—
David L. Hauser Executive Officer	7/1/2009	533,334	—	—	0.95	7/1/2019	—	—	—	—
Ajay Sabherwal Executive Vice President, Chief Financial Officer	—	—	—	—	—	—	—	—	—	—
Alfred C. Giammarino Executive Vice President, Chief Financial Officer	—	—	—	—	—	—	—	—	—	—
Peter G. Nixon President	3/12/2002	8,419	—	—	36.94	3/12/2012	—	—	—	—
	12/12/2003	23,786	—	—	36.94	12/12/2013	—	—	—	—
	3/3/2009	—	—	—	—	—	—	—	45,139(2)	903
Shirley J. Linn Executive Vice President, General Counsel and Secretary	3/12/2002	9,209	—	—	36.94	3/12/2012	—	—	—	—
	12/12/2003	14,212	—	—	36.94	12/12/2013	—	—	—	—
	3/3/2009	—	—	—	—	—	—	—	41,667(2)	833
Lisa R. Hood Senior Vice President and Controller	3/12/2002	8,791	—	—	36.94	3/12/2012	—	—	—	—
	12/12/2003	6,633	—	—	36.94	12/12/2013	—	—	—	—
	3/3/2009	—	—	—	—	—	—	—	15,972(2)	319
Raymond C. Allieri Executive Vice President and Chief Strategy Officer	—	—	—	—	—	—	—	—	—	—

(1) These restricted shares were to vest on July 1, 2012.

(2) These awards were granted under the FairPoint Communications, Inc. 2008 Long Term Incentive Plan for the performance period January 1, 2009 through December 31, 2011. Payout of awards is based 50% on the Company's TSR, as defined in the award agreement, versus its peer group in the Dow Jones Telecommunications Index and 50% on the Company's Adjusted EBITDA versus a target set by the compensation committee prior to the beginning of the performance period. Participants will receive a percentage of their TSR target as follows: TSR greater than 20% of peer group — 40%, TSR greater than 40% of peer group — 100%, TSR greater than 60% of peer group — 200%. If the Company's TSR is not greater than at least 20% of its peer group, then participants will receive nothing. Participants will receive a percentage of their Adjusted EBITDA target according to the Company's Adjusted EBITDA versus its target, as follows: less than 95% of target — 0%, 95% of target — 40%, 100% of target — 100%, 105% of target or higher — 200%. Amounts listed in column (i) reflect the threshold number of shares to be issued, as performance to date has not exceeded the threshold. Amounts listed in column (j) reflect the market value of these awards at December 31, 2010, based on the closing price of the Company's common stock on December 31, 2010.

Option Exercises and Stock Vested

None of the NEOs exercised any stock options or had any stock awards vest during the fiscal year ended December 31, 2010. Pursuant to the Plan, all outstanding equity interests of the Company, including but not limited to all outstanding shares of common stock, options and contractual or other rights to acquire any equity interests, were cancelled and extinguished on the Effective Date. See "Item 1. Business—Bankruptcy—The Plan—New Long Term Incentive Plan and Success Bonus Plan."

Nonqualified Deferred Compensation

Pursuant to the NQDC Plan, certain executives, including NEOs, may defer a portion of their annual salary and bonuses. Deferral elections are made by eligible executives in each year for amounts to be earned in the following year. An executive can defer up to 50% of his or her annual salary and up to 100% of his or her annual bonus.

(a) Name	(b) Executive Contributions in Last FY ($)	(c) Registrant Contributions in Last FY ($)	(d) Aggregate Earnings in Last FY ($)	(e) Aggregate Withdrawals/ Distributions ($)	(f) Aggregate Balance at Last FYE ($)(1)
Paul H. Sunu Chief Executive Officer	—	—	—	—	—
David L. Hauser Chairman of the Board of Directors and Chief Executive Officer	—	—	—	—	—
Ajay Sabherwal Executive Vice President, Chief Financial Officer	—	—	—	—	—
Alfred C. Giammarino Executive Vice President, Chief Financial Officer	—	—	—	—	—
Peter G. Nixon President	—	—	8,923	—	72,975
Shirley J. Linn Executive Vice President, General Counsel and Secretary	—	—	2,161	—	19,268
Lisa R. Hood Senior Vice President and Controller	—	—	3,783	—	44,087
Raymond C. Allieri Executive Vice President, and Chief Strategy Officer	—	—	—	—	—

(1) The following table shows the extent to which amounts reported in this column have been reported in the "Summary Compensation Table" for the current or previous years:

Name	Amount
Paul H. Sunu	—
David L. Hauser	—
Ajay Sabherwal	—
Alfred C. Giammarino	—
Peter G. Nixon	34,278
Shirley J. Linn	29,658
Lisa R. Hood	4,247
Raymond C. Allieri	—

Potential Payments Upon Termination or Change of Control

FairPoint has an employment agreement with Mr. Sunu and change in control and severance agreements with Messrs. Sabherwal and Nixon and Ms. Linn. These agreements provide benefits to our NEOs in the event their employment is terminated under certain circumstances as summarized below.

Mr. Sunu

Under the employment agreement with Mr. Sunu, either party may terminate Mr. Sunu's employment at any time. In the event the Company terminates Mr. Sunu's employment without cause (as defined in the employment agreement), if the Company delivers Mr. Sunu a non-extension notice or if Mr. Sunu resigns his employment for good reason, Mr. Sunu will receive: (i) any accrued but unpaid base salary or bonuses, any unpaid or unreimbursed expense reimbursements and any benefits to be provided under the Company's employee benefits plans upon a termination of employment; (ii) an amount equal to the sum of (A) two times the amount of Mr. Sunu's then-current base salary, (B) two times the amount of his annual incentive plan bonus for the immediately preceding fiscal year (or in the event such termination occurs prior to the payment of Mr. Sunu's annual incentive plan bonus for 2011, if any, an amount equal to $1,500,000) and (C) the cost of continued health and disability insurance coverage for Mr. Sunu and his covered dependents for a period of twenty-four months.

Messrs. Sabherwal and Nixon and Ms. Linn

We entered into change in control and severance agreements, which we refer to collectively as the severance agreements, with Mr. Nixon and Ms. Linn, on March 14, 2007, and with Mr. Sabherwal, on August 24, 2010. Each severance agreement provides, subject to certain other conditions, that we will pay severance and provide benefits to the subject executive (i) in the event of such employee's termination without cause or following a change in control, or (ii) within two years of a change in control, upon such employee's resignation within 45 days following (A) a significant or material reduction of such employee's key responsibilities or duties, (B) a reduction in such employee's overall compensation opportunities, (C) the diminishment or elimination of such employee's rights to the severance benefits detailed in the severance agreement, or (D) any material breach by the Company of the severance agreement. The severance payable and benefits required to be provided include unpaid base salary, lump sum cash payments equal to two times such employee's annual base salary and annual bonus, COBRA premiums and life insurance premiums for 24 months, and the vesting of all non-performance based, non-vested and/or unearned long-term incentive awards, among others. The severance agreements do not require the Company to provide any tax gross-up on the benefits paid under the severance agreements. However, if the Company determines that reducing the benefits to just below the level that would trigger the "golden parachute" excise tax payable by the executive will result in a greater after-tax benefit to the executive, the benefits will be reduced to that level.

The severance agreements also contain provisions pursuant to which the subject employees, for a period of 12 months following termination of employment, promise to refrain from certain activities including (1) soliciting any of our employees or consultants to leave us or to perform services for another company, or (2) accepting any employment or similar arrangements with our competitors.

The following table shows cash compensation that would have been payable under the agreements with the NEOs (other than Messrs. Hauser and Giammarino, who resigned during 2010) if their employment had terminated on December 31, 2010.

Reason for Payment:	Cash Severance ($)	Bonus ($)	Acceleration and Continuation of Equity Awards (Market Value of Unearned Awards as of 12/31/10) ($)	Continuation of Medical/Welfare Benefits (Present Value) ($)	Total Termination Benefits ($)
Paul H. Sunu					
Involuntary termination with cause	—	—	—	—	—
Voluntary termination	—	—	—	—	—
Termination without cause or after change in control	1,500,000	1,500,000	—	28,067	3,028,067
Ajay Sabherwal					
Involuntary termination with cause	—	—	—	—	—
Voluntary termination	—	—	—	—	—
Termination without cause or after change in control	740,000	370,000	—	38,062	1,148,062
Peter G. Nixon					
Involuntary termination with cause	—	—	—	—	—
Voluntary termination	—	—	—	—	—
Termination without cause or after change in control	650,000	39,188	903	26,710	716,801
Shirley J. Linn					
Involuntary termination with cause	—	—	—	—	—
Voluntary termination	—	—	—	—	—
Termination without cause or after change in control	600,000	36,173	833	26,631	663,637
Lisa R. Hood					
Involuntary termination with cause	—	—	—	—	—
Voluntary termination	—	—	—	—	—
Termination after change in control	—	—	319	—	319

Director Compensation

2010 Compensation

We use a combination of cash and stock-based incentive compensation to attract and retain qualified candidates to serve on our board of directors. In setting director compensation, we consider the significant amount of time that directors expend in fulfilling their duties to the Company as well as the skill level required by the members of our board of directors.

In 2010, each non-employee director received an annual fee of $55,000 for serving as a director. In addition, an annual fee of $10,000 was paid for serving as the chairperson of FairPoint Communication's compensation committee or corporate governance committee and an annual fee of $20,000 was paid for serving as the chairperson of FairPoint's audit committee. An annual fee of $10,000 was paid to FairPoint's lead director. Following Mr. Hauser's resignation, Ms. Newman served as the chair of the board of directors and received a lump sum fee of $50,000.

FairPoint's non-employee directors also receive an annual award of approximately $45,000. Prior to March 31, 2010, this award was paid in the form of restricted stock or restricted units, at the recipient's option, which are issued under FairPoint's 2005 Stock Incentive Plan or 2008 Long Term Incentive Plan. These awards vested in four quarterly installments from the grant date, and the holders thereof were entitled to receive dividends or dividend equivalents on such awards from the date of grant, whether or not vested. Effective March 31, 2010, this equity award was changed to a $45,000 annual cash award, payable quarterly.

On September 3, 2008, the corporate governance committee of the board of directors determined that, from time to time, members of special purpose committees of the board of directors should be awarded appropriate compensation for their services to such committees. They also determined that members of the board of directors' succession planning committee would receive compensation because of the time requirements, confidentiality requirements and the importance of the committee's work. The chairperson of the committee received $25,000 for her service and each committee member received $15,000. One half of this fee was paid in September 2008 and the remainder was paid in June 2009. During the Chapter 11 Cases, Mr. Lilien was appointed as our restructuring monitor on behalf of the board of directors and received compensation of $160,000.

FairPoint's employee directors do not receive any compensation for serving on the board of directors.

2010 Summary Director Compensation

(a) Name	(b) Fees Earned or Paid in Cash ($)(1)(2)	(c) Stock Awards ($)	(d) Option Awards ($)	(e) Non-equity Incentive Plan Compensation ($)	(f) Change in Pension Value and Nonqualified Deferred Compensation Earnings	(g) All Other Compensation ($)	(h) Total ($)
Thomas F. Gilbane, Jr.(3)	110,000	—	—	—	—	—	110,000
Claude C. Lilly	120,000	—	—	—	—	—	120,000
Robert S. Lilien	260,000	—	—	—	—	—	260,000
Jane E. Newman	160,000	—	—	—	—	—	160,000
Michael R. Tuttle(3)	110,000	—	—	—	—	—	110,000

(1) See the discussion preceding this table for the general method used to determine each non-employee director's cash compensation. For fiscal 2010, the particular components paid as cash compensation in excess of each non-employee director's $55,000 retainer and $45,000 annual award were as follows: Gilbane ($10,000 as chair of compensation

committee); Lilien ($160,000 as restructuring monitor); Lilly ($20,000 as chair of audit committee); Newman ($10,000 as lead director and $50,000 as chair of the board of directors following Mr. Hauser's resignation); Tuttle ($10,000 as chair of corporate governance and nominating committee).

(2) Fees Earned or Paid in Cash includes amounts accrued but unpaid for services rendered in the fourth quarter of 2010.

(3) Messrs. Gilbane and Tuttle were nominated by Verizon and appointed as directors by our board of directors effective as of March 31, 2008.

Compensation Committee Interlocks and Insider Participation

During 2010, decisions on various elements of executive compensation were made by our compensation committee. No officer, employee or former officer of the Company served as a member of our compensation committee during 2010. No committee member had any interlocking relationships requiring disclosure under applicable rules and regulations.

For a description of certain relationships and transactions between us and members of our board of directors or their affiliates, see "Certain Relationships and Related Party Transactions."

Compensation Committee Report

In connection with its duty to review and approve executive compensation, the compensation committee has: (i) reviewed and discussed the Compensation Discussion and Analysis required by Item 402(b), and (ii) based on this review and discussion, recommended to the board of directors that the Compensation Discussion and Analysis be included in this Annual Report on Form 10-K. As of the Effective Date, the FairPoint Communications Compensation Committee consists of Todd W. Arden, Edward D. Horowitz (chair), and David L. Treadwell.

EXECUTIVE OFFICERS

The following table sets forth the names and positions of our current executive officers and their ages as of March 31, 2011.

Name	Age	Position
Paul H. Sunu	55	Chief Executive Officer
Peter G. Nixon	58	President
Ajay Sabherwal	45	Executive Vice President and Chief Financial Officer
Jeffrey W. Allen	55	Executive Vice President, Sales and Marketing
Kenneth W. Amburn	68	Executive Vice President, Operations and Engineering
Shirley J. Linn	60	Executive Vice President, General Counsel and Secretary
Kathleen McLean	51	Executive Vice President and Chief Information Officer
Gary C. Garvey	57	Senior Vice President, Human Resources
John T. Hogshire	49	Vice President and Controller
Thomas E. Griffin	50	Vice President and Treasurer
Rose B. Cummings	52	Vice President, Integrated Marketing Communications
Rod Imbriani	50	Vice President, Product and Marketing Management

The following sets forth selected biographical information for our executive officers who are not directors.

Peter G. Nixon. In July 2007, Mr. Nixon was appointed as our President. Prior to assuming this role, Mr. Nixon had served as our Chief Operating Officer since November 2002. Previously, Mr. Nixon was our Senior Vice President of Corporate Development from February 2002 to November 2002 and President of our Telecom Group from April 2001 to February 2002. Prior to this, Mr. Nixon served as President of our Eastern Region Telecom Group from June 1999 to April 2001 and President of Chautauqua and Erie Telephone Corporation, which we refer to as C&E, from July 1997, when we acquired C&E, to June 1999. From April 1, 1989 to June

1997, Mr. Nixon served as Executive Vice President of C&E. From April 1, 1978 to March 31, 1989, Mr. Nixon served as Vice President of Operations for C&E. Mr. Nixon has served as the past Chairman of the New York State Telecommunications Association from June 1996 to June 1998.

Ajay Sabherwal. In July 2010, Mr. Sabherwal was appointed as our Executive Vice President and Chief Financial Officer. Previously, Mr. Sabherwal served as Chief Financial Officer for Mendel Biotechnology from 2009 to 2010, Chief Financial Officer for Aventine Renewable Energy from 2005 to 2009 and Executive Vice President, Finance & Chief Financial Officer for Choice One Communications from 1999 to 2005.

Jeffrey W. Allen. In July 2009, Mr. Allen was appointed as our Executive Vice President, Sales and Marketing. Previously, Mr. Allen served as our Executive Vice President, External Relations from May 2008 to July 2009 and Assistant Vice President, Customer Operations from June 2007 to May 2008. Prior to joining the Company, Mr. Allen served as General Manager, Wireless for Datapath, Inc. from December 2005 to June 2007, Chief Executive Officer of Third Rail Americas, Inc. from January 2005 to December 2005, President, Chief Executive Officer and Chairman of the Board of Intellispace, Inc. from June 2001 to June 2004 and Chief Operating Officer of Intellispace, Inc. from April 2000 to June 2001.

Kenneth W. Amburn. In October 2010, Mr. Amburn was appointed as our Executive Vice President, Operations and Engineering. Prior to joining us, Mr. Amburn served as Chief Operating Officer for Madison River Communications from September 2000 to April 2007 and as Vice President of Operations for Madison River Communications from May 1998 to August 2000. Previously, Mr. Amburn served as Vice President for Network Construction Services from September 1995 to April 1998. He served as Vice President, East Region for Citizens Utilities from July 1993 to August 1995, Sprint/Centel Texas from January 1993 to June 1993 and Centel Texas from January 1985 to December 1992.

Shirley J. Linn. In March 2006, Ms. Linn was appointed as our Executive Vice President, General Counsel and Secretary. Previously, Ms. Linn served as our Senior Vice President, General Counsel and Secretary from September 2004 to March 2006. Prior thereto, Ms. Linn served as our General Counsel since October 2000, our Vice President since October 2000, and our Secretary since December 2000. Prior to joining us, Ms. Linn was a partner, from 1984 to 2000, in the Charlotte, North Carolina law firm of Underwood Kinsey Warren & Tucker, P.A., where she specialized in general business matters, particularly mergers and acquisitions.

Kathleen McLean. In March 2010, Ms. McLean was appointed as our Executive Vice President and Chief Information Officer. Prior to joining us, Ms. McLean served as Senior Vice President, Customer Service in Verizon Partner Solutions from December 2008 to December 2009. She also served Verizon as Senior Vice President, Wholesale Sales from December 2007 to December 2008, Senior Vice President, Customer Care from January 2006 to December 2007, Senior Vice President, Customer Relationship and Systems Management from December 2002 to December 2005 and Senior Vice President, Information Technology Group from May 1998 to November 2002. Prior to joining Verizon, Ms. McLean was a Vice President in the telecommunications industry group of an international consulting firm.

Gary C. Garvey. In March 2008, Mr. Garvey was appointed as our Senior Vice President, Human Resources. Prior to joining us, Mr. Garvey held senior leadership positions in human resources at Draka Holding N.V. and Draka Comteq B.V. in Amsterdam from April 2005 to February 2008, at Lightolier from April 2004 to March 2005 and at Corning Cable Systems/Siecor Corporation April 1983 to December 2002.

John T. Hogshire. In September 2010, Mr. Hogshire was appointed as our Vice President and Controller. Mr. Hogshire previously served as the Director of Accounting for Aviat Networks (f/k/a Harris Stratex Networks) from July 2008 to September 2010, as a Consultant with Aviat Networks from January 2008 to July 2008 and as Vice President — Controller of Madison River Communications from December 1998 to July 2007.

Thomas E. Griffin. In December 2005, Mr. Griffin was appointed our Treasurer, and, in early 2008, was appointed a Vice President. Mr. Griffin joined us in January 2000 as Assistant Treasurer and served as our General Manager of Wireless Broadband operations from December 2003 through March 2005. Previously, Mr. Griffin was employed by Sealand Service, Inc. as Assistant Treasurer from September 1997 to January 2000 where he was responsible for worldwide cash management and as Director of Financial Planning for Europe for Sealand Service, Inc. from September 1995 to September 1997.

Rose B. Cummings. In December 2010, Ms. Cummings was appointed as our Vice President, Integrated Marketing Communications. Previously, Ms. Cummings served as Vice President, Corporate Communications from October 2007 to December 2010. Prior to joining us, Ms. Cummings served as Executive Director of Corporate Communications for SunCom Wireless (now T-Mobile) from January 2006 to September 2007, Public Affairs Manager for Duke Energy from 1994 to 2006 and Public Information Director for Mecklenburg County (NC) Government from 1986 to 1994.

Rod Imbriani. In December 2010, Mr. Imbriani was appointed as our Vice President, Product and Marketing Management. Prior to joining us, Mr. Imbriani served as Vice President of Marketing for the service division of the Scotts Miracle-Gro Company from June 2008 to February 2010. Prior to that position, he served as Vice President of Product Operations for CenturyTel, Inc. from April 2006 to June 2008. Mr. Imbriani has also served in marketing positions for Frontier Communications Corporation, Broadwing Communications LLC, Intermedia Communications, Qwest Communications, MCI and US West, Inc. Mr. Imbriani began his career as a developer at AT&T Bell Labs.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

Securities Authorized for Issuance Under Equity Compensation Plans

See “Item 5. Market for Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities—Securities Authorized for Issuance Under Equity Compensation Plans” for the table entitled “Equity Compensation Plan Information.”

On the Effective Date, pursuant to the Plan, we were deemed to have adopted the Long Term Incentive Plan and the Success Bonus Plan. See “Item 1. Business — Emergence from Chapter 11 Proceedings — Long Term Incentive Plan and Success Bonus Plan.”

Security Ownership of Certain Beneficial Owners

Section 16(a) of the Securities Exchange Act of 1934 requires our officers and directors, and persons who own, or are part of a group that owns, more than ten percent of a registered class of our equity securities, to file reports of ownership and changes in ownership with the SEC and the NYSE. Officers, directors and beneficial owners of more than 10% of our common stock are required by regulation of the SEC to furnish us with copies of all Section 16(a) forms they file.

Based solely on our review of Forms 3, 4 and 5 and amendments thereto available to us and other information obtained from our directors, officers and beneficial owners of more than 10% of our common stock or otherwise available to us, we believe that no director, officer or beneficial owner of more than 10% of our common stock failed to file on a timely basis reports required pursuant to Section 16(a) of the Securities Exchange Act of 1934 for fiscal 2010.

The following table sets forth information regarding beneficial ownership of our Common Stock as of March 25, 2011, for:

- each NEO;
- each director;
- all executive officers and directors as a group; and
- each person known to us to be the beneficial owner of 5% or more of the outstanding shares of our common stock.

The information (other than with respect to our directors and executives) is based on a review of statements filed with the SEC pursuant to Sections 13(d), 13(f) and 13(g) of the Exchange Act with respect to our Common Stock.

The amounts and percentages of Common Stock beneficially owned are reported on the basis of regulations of the SEC governing the determination of beneficial ownership of securities. Under the rules of the SEC, a person is deemed to be a "beneficial owner" of a security if that person has or shares "voting power," which includes the power to vote or to direct the voting of such security, or "investment power," which includes the power to dispose of or direct the disposition of such security. A person is also deemed to be a beneficial owner of any securities of which that person has a right to acquire beneficial ownership within 60 days. All persons listed have sole voting and investment power with respect to their shares unless otherwise indicated.

	Common Stock Beneficially Owned(1)	
Name	Number	Percent of Class
Executive Officers and Directors:		
Paul H. Sunu(2)	151,250	0.6%
Ajay Sabherwal(3)	44,500	0.2%
Peter G. Nixon(4)	35,250	0.1%
Shirley J. Linn(5)	35,250	0.1%
Lisa R. Hood(6)	9,425	*
Todd W. Arden	—	*
Dennis J. Austin(7)	20,083	*
Edward D. Horowitz(8)	20,083	*
Michael J. Mahoney(9)	20,083	*
Michael K. Robinson(10)	20,083	*
David L. Treadwell(11)	20,083	*
Wayne Wilson(12)	20,083	*
All directors and executive officers of FairPoint as a group(19 persons)(13)	546,598	2.1%
5% Stockholders:		
Angelo, Gordon & Co., L.P.(14)	4,628,325	17.7%
Marathon Asset Management, L.P.(15)	2,850,793	10.9%
Chatham Asset Management, LLC (16)	1,470,003	5.6%

* Less than 0.1%.

(1) Unless otherwise indicated below, the persons and entities named in the table have sole voting and sole investment power with respect to all shares beneficially owned by them, subject to community property laws where applicable. The percentage of beneficial ownership is based on 26,197,432 shares of our common stock outstanding as of March 25, 2011.

(2) With respect to shares beneficially owned: (i) includes 31,250 shares of our common stock issuable upon exercise of stock options that are either currently exercisable or become exercisable during the next 60 days, (ii) does not include 93,750 shares of our common stock issuable upon exercise of stock options that are neither currently exercisable nor become exercisable during the next 60 days and (iii) includes 120,000 shares of restricted stock.

(3) With respect to shares beneficially owned: (i) includes 10,500 shares of our common stock issuable upon exercise of stock options that are either currently exercisable or become exercisable during the next 60 days (ii) does not include 31,500 shares of our common stock issuable upon exercise of stock options that are neither currently exercisable nor become exercisable during the next 60 days and (iii) includes 34,000 shares of restricted stock.

(4) With respect to shares beneficially owned: (i) includes 8,250 shares of our common stock issuable upon exercise of stock options that are either currently exercisable or become exercisable during the next 60 days (ii) does not include 24,750 shares of our common stock issuable upon exercise of stock options that are neither currently exercisable nor become exercisable during the next 60 days and (iii) includes 27,000 shares of restricted stock.

(5) With respect to shares beneficially owned: (i) includes 8,250 shares of our common stock issuable upon exercise of stock options that are either currently exercisable or become exercisable during the next 60 days (ii) does not include 24,750 shares of our common stock issuable upon exercise of stock options that are neither currently exercisable nor become exercisable during the next 60 days and (iii) includes 27,000 shares of restricted stock.

(6) With respect to shares beneficially owned: (i) includes 4,625 shares of our common stock issuable upon exercise of stock options that are either currently exercisable or become exercisable during the next 60 days (ii) does not include 13,875 shares of our common stock issuable upon exercise of stock options that are neither currently exercisable nor become exercisable during the next 60 days and (iii) includes 4,800 shares of restricted stock.

(7) With respect to shares beneficially owned: (i) includes 5,500 shares of our common stock issuable upon exercise of stock options that are either currently exercisable or become exercisable during the next 60 days (ii) does not include 22,002 shares of our common stock issuable upon exercise of stock options that are neither currently exercisable nor become exercisable during the next 60 days and (iii) includes 14,583 shares of restricted stock.

(8) With respect to shares beneficially owned: (i) includes 5,500 shares of our common stock issuable upon exercise of stock options that are either currently exercisable or become exercisable during the next 60 days (ii) does not include 22,002 shares of our common stock issuable upon exercise of stock options that are neither currently exercisable nor become exercisable during the next 60 days and (iii) includes 14,583 shares of restricted stock.

(9) With respect to shares beneficially owned: (i) includes 5,500 shares of our common stock issuable upon exercise of stock options that are either currently exercisable or become exercisable during the next 60 days (ii) does not include 22,002 shares of our common stock issuable upon exercise of stock options that are neither currently exercisable nor become exercisable during the next 60 days and (iii) includes 14,583 shares of restricted stock.

(10) With respect to shares beneficially owned: (i) includes 5,500 shares of our common stock issuable upon exercise of stock options that are either currently exercisable or become exercisable during the next 60 days (ii) does not include 22,002 shares of our common stock issuable upon exercise of stock options that are neither currently exercisable nor become exercisable during the next 60 days and (iii) includes 14,583 shares of restricted stock.

(11) With respect to shares beneficially owned: (i) includes 5,500 shares of our common stock issuable upon exercise of stock options that are either currently exercisable or become exercisable during the next 60 days (ii) does not include 22,002 shares of our common stock issuable upon exercise of stock options that are neither currently exercisable nor become exercisable during the next 60 days and (iii) includes 14,583 shares of restricted stock.

(12) With respect to shares beneficially owned: (i) includes 5,500 shares of our common stock issuable upon exercise of stock options that are either currently exercisable or become exercisable during the next 60 days (ii) does not include 22,002 shares of our common stock issuable upon exercise of stock options that are neither currently exercisable nor become exercisable during the next 60 days and (iii) includes 14,583 shares of restricted stock.

(13) With respect to shares beneficially owned: (i) includes 138,500 shares of our common stock issuable upon exercise of stock options that are either currently exercisable or become exercisable during the next 60 days (ii) does not include 415,512 shares of our common stock issuable upon exercise of stock options that are neither currently exercisable nor become exercisable during the next 60 days and (iii) includes 408,098 shares of restricted stock.

(14) Other than the information relating to its percentage ownership of our common stock, based solely on information contained in a Schedule 13D filed with the SEC on February 3, 2011, by Angelo, Gordon & Co., L.P. (address: 245 Park Avenue, 26th Floor, New York, NY 10167). The Angelo, Gordon & Co., L.P. Schedule 13D reported sole voting power and sole dispositive power of 4,628,325 shares.

(15) Other than the information relating to its percentage ownership of our common stock, based solely on information contained in a Schedule 13G filed with the SEC on February 4, 2011, by Marathon Asset Management, L.P. (address: One Bryant Park, 38th Floor, New York, NY 10036). The Marathon Asset Management, L.P. Schedule 13G reported sole voting power and sole dispositive power of 4,121,444 shares, which includes 2,850,793 shares of common stock and 1,270,651 warrants to purchase common stock at an exercise price of $48.81.

(16) Other than the information relating to its percentage ownership of our common stock, based solely on information contained in a Schedule 13G filed with the SEC on January 24, 2011, by Chatham Asset Management, LLC (address: 26 Main Street, Suite 204, Chatham, New Jersey 07928). The Chatham Asset Management, LLC Schedule 13G reported shared voting power and shared dispositive power of 2,850,793 shares.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

Our code of business conduct and ethics, which is posted on our website at www.fairpoint.com, prohibits directors and executive officers from engaging in transactions on behalf of us with a family member, or with a company with which they are or their family member is a significant owner or associated or employed in a significant role. Our audit committee must review and approve in advance all material related party transactions or business or professional relationships. All instances involving potential related party transactions or business or professional relationships must be reported to our legal department which will assess the materiality of the transaction or relationship and elevate the matter to the audit committee as appropriate. Any dealings with a related party must be conducted in such a way as to avoid preferential treatment and assure that the terms obtained by us are no less favorable than could be obtained from unrelated parties on an arm's-length basis. Directors and officers are not permitted to enter into, develop or continue any such material transaction or relationship without obtaining prior approval from the audit committee.

Director Independence

The board of directors considered transactions and relationships between each director who served on our board in fiscal year 2010 or any member of his or her immediate family and the Company and its subsidiaries and affiliates. Our board of directors has determined that, other than David L. Hauser, who resigned from our board on August 24, 2010, and Paul H. Sunu, all of our directors were independent under the criteria for independence set forth in the listing standards of the NYSE, and accordingly were independent directors with no material relationship to the Company other than being a director or stockholder of FairPoint. For more information about director independence, see "Item 10. Directors, Executive Officers and Corporate Governance."

ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

The following table sets forth the aggregate fees paid or payable to Ernst & Young LLP, our independent registered public accounting firm, relating to services rendered for our fiscal years ended December 31, 2010 and 2009:

	Fiscal Year ended December 31,	
	2010	2009
Audit Fees(1)	$5,379,000	$5,982,000
Audit Related Fees (2)	66,000	42,000
Tax Fees (3)	666,000	246,000
All Other Fees	—	—

(1) Audit Fees include amounts billed to us related to annual financial statement audit work and quarterly financial statement reviews. These amounts also include the review of documents filed with the SEC, accounting consultations related to the annual audit and the preparation of letters for underwriters and other requesting parties with respect to the Merger and related transactions and application of fresh start accounting.

(2) Audit Related Fees consist of amounts billed to us related to a review of internal controls within our revenue process.

(3) Tax Fees consist of fees for professional services for tax consulting and compliance as well as reviews of our 2009 and 2010 restructuring costs for tax purposes.

Audit Committee Pre-Approval Policy

In accordance with our audit committee pre-approval policy, all audit and non-audit services performed for us by our independent accountants were pre-approved by our audit committee.

Our audit committee's pre-approval policy provides that our independent registered public accounting firm shall not provide services that have the potential to impair or appear to impair the independence of the audit role. The pre-approval policy requires our independent registered public accounting firm to provide an annual engagement letter to our audit committee outlining the scope of the audit services proposed to be performed during the fiscal year. Upon the audit committee's acceptance of and agreement with such engagement letter, the services within the scope of the proposed audit services shall be deemed pre-approved pursuant to the policy.

The pre-approval policy provides for categorical pre-approval of specified audit and permissible non-audit services and requires the specific pre-approval by the audit committee, prior to engagement, of such services, other than audit services covered by the annual engagement letter. In addition, services to be provided by our independent registered public accounting firm that are not within the category of pre-approved services must be approved by the audit committee prior to engagement, regardless of the service being requested or the dollar amount involved.

Requests or applications for services that require specific separate approval by the audit committee are required to be submitted to the audit committee by both management and the independent registered public accounting firm, and must include a detailed description of the services to be provided and a joint statement confirming that the provision of the proposed services does not impair the independence of the independent registered public accounting firm.

The audit committee may delegate pre-approval authority to one or more of its members. The member or members to whom such authority is delegated shall report any pre-approval decisions to the audit committee at its next scheduled meeting. The audit committee is prohibited from delegating to management its responsibilities to pre-approve services to be performed by our independent registered public accounting firm.

PART IV

ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES

(a) Financial Statements

The financial statements filed as part of this Annual Report are listed in the index to the financial statements under "Item 8. Financial Statements and Supplementary Data" in this Annual Report, which index to the financial statements is incorporated herein by reference.

(b) Exhibits

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

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this Annual Report to be signed on its behalf by the undersigned, thereunto duly authorized.

Fairpoint Communications, Inc.

Date: March 31, 2011

By: /s/ Paul H. Sunu
Name: Paul H. Sunu
Title: Chief Executive Officer and Director

Pursuant to the requirements of the Securities Exchange Act of 1934, this Annual Report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

Signatures	Title	Date
/s/ Paul H. Sunu Paul H. Sunu	Chief Executive Officer and Director (Principal Executive Officer)	March 31, 2011
/s/ Ajay Sabherwal Ajay Sabherwal	Executive Vice President and Chief Financial Officer (Principal Financial Officer)	March 31, 2011
/s/ John T. Hogshire John T. Hogshire	Vice President and Controller (Principal Accounting Officer)	March 31, 2011
/s/ Todd W. Arden Todd W. Arden	Director	March 31, 2011
/s/ Dennis J. Austin Dennis J. Austin	Director	March 31, 2011
/s/ Edward D. Horowitz Edward D. Horowitz	Chairman of the Board of Directors	March 31, 2011
/s/ Michael J. Mahoney Michael J. Mahoney	Director	March 31, 2011
/s/ Michael K. Robinson Michael K. Robinson	Director	March 31, 2011
/s/ David L. Treadwell David L. Treadwell	Director	March 31, 2011
/s/ Wayne Wilson Wayne Wilson	Director	March 31, 2011

Table of Contents

Exhibit Index

Exhibit No.	Description
2.1	Third Amended Joint Plan of Reorganization Under Chapter 11 of the Bankruptcy Code.(1)
3.1	Ninth Amended and Restated Certificate of Incorporation of FairPoint.(2)
3.2	Second Amended and Restated By Laws of FairPoint.(2)
4.1	Warrant Agreement, dated as of January 24, 2011, by and between FairPoint and The Bank of New York Mellon.(3)
4.2	Specimen Stock Certificate.(2)
4.3	Specimen Warrant Certificate.(3)
10.1	Credit Agreement, dated as of January 24, 2011, by and among FairPoint, FairPoint Logistics, Bank of America, N.A., as administrative agent, the other lenders party thereto and Banc of America Securities LLC, as sole lead arranger and sole book manager.(3)
10.2	Pledge Agreement, dated as of January 24, 2011, made by the pledgors party thereto in favor of Bank of America, N.A. as administrative agent, for the benefit of certain secured parties.(3)
10.3	Security Agreement, dated as of January 24, 2011, by and among FairPoint, FairPoint Logistics, the subsidiaries of FairPoint party thereto and Bank of America, N.A., as administrative agent.(3)
10.4	Continuing Guaranty Agreement, dated as of January 24, 2011, made by and among the guarantors party thereto in favor of Bank of America, N.A., as administrative agent, for the benefit of certain secured parties.(3)
10.5	Registration Rights Agreement, dated as of January 24, 2011, by and between FairPoint Communications, Inc. and Angelo, Gordon & Co., L.P.(3)
10.6	FairPoint Litigation Trust Agreement, dated as of January 24, 2011.(3)
10.7	Form of Director Indemnity Agreement.(4)
10.8	Amended and Restated Tax Sharing Agreement, dated as of November 9, 2000, by and among FairPoint and its Subsidiaries.(5)
10.9	Employment Agreement, dated as of August 16, 2010, by and between FairPoint and Paul H. Sunu.†(6)
10.10	Consulting Agreement, dated as of August 16, 2010, by and between FairPoint and David L. Hauser.(6)
10.11	Change in Control and Severance Agreement, dated as of March 14, 2007, by and between FairPoint and Peter G. Nixon.†(7)
10.12	Change in Control and Severance Agreement, dated as of March 14, 2007, by and between FairPoint and Shirley J. Linn.†(7)
10.13	Change in Control and Severance Agreement, dated as of September 3, 2008, by and between FairPoint and Ajay Sabherwal.†(6)
10.14	FairPoint Communications, Inc. 2010 Long Term Incentive Plan.†(1)
10.15	FairPoint Communications, Inc. 2010 Success Bonus Plan.†(1)
10.16	Form of Restricted Share Award Agreement—FairPoint Communications, Inc. 2010 Long Term Incentive Plan.†(1)
10.17	Stipulation filed with the Maine Public Utilities Commission, dated December 12, 2007.(8)
10.18	Amended Stipulation filed with the Maine Public Utilities Commission dated December 21, 2007(9)
10.19	Stipulation filed with the Vermont Public Service Board, dated January 8, 2008.(10)
10.20	Stipulation filed with the New Hampshire Public Utilities Commission, dated January 23, 2008.(11)
10.21	Letter Agreement, dated as of March 30, 2008, by and between the Staff of the New Hampshire Public Utilities Commission and Verizon Communications Inc.(9)
10.22	Letter, dated as of May 12, 2009, from the Staff of the New Hampshire Public Utilities Commission to FairPoint.(12)

Table of Contents

Exhibit No.	Description
10.23	Post Filing Regulatory Settlement—New Hampshire, dated as of February 5, 2010, by and between FairPoint and New Hampshire Public Utilities Commission Staff Advocates.(1)
10.25	Post Filing Regulatory Settlement—Maine, dated as of February 9, 2010, by and among FairPoint, Maine Public Utilities Commission and Maine Office of the Public Advocate.(1)
10.25	Post Filing Regulatory Settlement—Vermont, dated as of February 5, 2010, by and between FairPoint and Vermont Department of Public Service.(1)
11	Statement Regarding Computation of Per Share Earnings (included in the financial statements contained in this Annual Report).
14.1	FairPoint Code of Business Conduct and Ethics.*
14.2	FairPoint Code of Ethics for Financial Professionals.(13)
21	Subsidiaries of FairPoint.*
23.1	Consent of Independent Registered Public Accounting Firm.*
31.1	Certification as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.*
31.2	Certification as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.*
32.1	Certification required by 18 United States Code Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.*‡
32.2	Certification required by 18 United States Code Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.*‡
99.1	Order Confirming Debtors' Third Amended Joint Plan of Reorganization Under Chapter 11 of the Bankruptcy Code, dated as of December 29, 2010.(1)
99.2	Order of the Maine Public Utilities Commission, dated February 1, 2008.(14)
99.3	Order of the Vermont Public Service Board, dated February 15, 2008.(15)
99.4	Order of the New Hampshire Public Utilities Commission, dated February 25, 2008.(16)
99.5	FairPoint Insider Trading Policy.*

* Filed herewith.

† Indicates a management contract or compensatory plan or arrangement.

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

(1) Incorporated by reference to the Current Report on Form 8-K of FairPoint filed on January 14, 2011.

(2) Incorporated by reference to the Registration Statement on Form 8-A of FairPoint filed on January 24, 2011.

(3) Incorporated by reference to the Current Report on Form 8-K of FairPoint filed on January 25, 2011, Film Number 11544980.

(4) Incorporated by reference to the Current Report on Form 8-K of FairPoint filed on January 25, 2011, Film Number 11544991.

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

(6) Incorporated by reference to the Quarterly Report on Form 10-Q of FairPoint for the period ended September 30, 2010.

(7) Incorporated by reference to the Current Report on Form 8-K of FairPoint filed on March 19, 2007.

(8) Incorporated by reference to the Current Report on Form 8-K of FairPoint filed on December 13, 2007.

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

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

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

(12) Incorporated by reference to the Quarterly Report on Form 10-Q of FairPoint for the period ended June 30, 2009.

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

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

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

(16) Incorporated by reference to the Current Report on Form 8-K of FairPoint filed on February 25, 2008.

Exhibit 14.1

FAIRPOINT COMMUNICATIONS, INC.
CODE OF BUSINESS CONDUCT AND ETHICS
(January 24, 2011)

Introduction

Set forth herein is the Code of Business Conduct and Ethics (the "Code") adopted by FairPoint Communications, Inc. (the "Company"). This Code summarizes basic guiding principles and standards of conduct to guide all employees, officers and directors of the Company and its subsidiaries and controlled affiliates in meeting our goal to achieve the highest business and personal ethical standards as well as compliance with the laws and regulations that apply to our business. This Code covers a wide range of business practices and procedures, but it does not address every applicable law or respond to every ethical question or concern that may arise. All of our employees, officers and directors must conduct themselves accordingly in every aspect of our business and seek to avoid even the appearance of wrongdoing or improper behavior. Our standard has been, and will continue to be, to advance the highest standards of ethical conduct. We expect the Company's agents, consultants, contractors, suppliers and representatives to be guided by the principles and standards set forth in this Code.

Our Chief Executive Officer, Chief Financial Officer and other financial and accounting officers must also adhere to our Code of Ethics for Financial Professionals which sets forth additional standards in connection with our public disclosures. If you have questions regarding any of the goals, principles, or standards discussed or policies or procedures referred to in this Code or are in doubt about the best course of action to take in a particular situation, you should contact the General Counsel, or follow the guidelines set forth in Section 16 of this Code.

Every employee, officer and director has a duty to adhere to this Code and those who violate the standards in this Code will be subject to disciplinary action which may include suspension or dismissal and/or the reporting of violative conduct to appropriate regulatory and criminal authorities. If you are involved in a situation which you believe may violate or lead to a violation of this Code, follow the guidelines described in Section 16 of this Code.

We are committed to continuously reviewing and updating our policies and procedures. Therefore, this Code is subject to modification. This Code supercedes all other such codes, policies, procedures, instructions, practices, rules or written or verbal representations concerning the subject matter of this Code to the extent they are inconsistent.

Please sign the acknowledgment form attached hereto as Exhibit A, indicating that you have received, read, understand and agree to comply with this Code, and return the form as instructed. The signed acknowledgment form will be located in your personnel file. Each year, as part of the annual review process, officers and other appropriate personnel may be asked to sign an acknowledgment indicating their continued understanding of and compliance with the Code. In addition, periodically, you may be asked to participate in seminars, training meetings and similar activities related to reinforcing your understanding of this Code and its applicability to the Company's business.

1. Compliance with Laws, Rules and Regulations

Obeying the law, both in letter and in spirit, is the foundation on which this Company's ethical standards are built. All employees, officers and directors must respect and obey the laws of the cities, states and countries in which we operate and the rules and regulations applicable to the Company's business. Although not all employees are expected to know the details of these laws, rules and regulations, it is important to know enough to determine when to seek advice from supervisors, managers or other appropriate personnel who should consult with the Legal Department as necessary or appropriate. Compliance with the law does not obviate the need to act with the highest honest and ethical standards.

To promote compliance with laws, rules, regulations and the policies of the Company, including insider trading rules, other securities laws, and anti-discrimination and anti- harassment laws and policies, the Company has established various compliance policies and procedures and, where appropriate, may conduct information and training sessions.

2. Conflicts of Interest

A "conflict of interest" exists when a person's personal private interest interferes in any way — or even appears to interfere in any way — with the interests of the Company. A conflict situation can arise when an employee, officer or director takes actions or has interests in connection with or as a result of a material transaction or relationship that may make it difficult for him or her or others to perform work or make decisions objectively and effectively in the Company's interest. Conflicts of interest may also arise when an employee, officer or director, or members of his or her family, receives improper personal benefits as a result of his or her position in the Company. Conflicts of interest, unless approved in accordance with this Code, as applicable, are prohibited as a matter of Company policy. Examples include the following:

(a) **Employment/Outside Employment**

In consideration of their employment with the Company, employees are expected to devote their full attention to the business interests of the Company. Employees are prohibited from engaging in any activity that interferes with their performance or responsibilities to the Company or is otherwise in conflict with or prejudicial to the Company. Our policies prohibit any employee from accepting simultaneous employment with a client, credit source, supplier, or competitor, or from taking part in any activity that enhances or supports a competitor's position. If you have any questions regarding this requirement, you should contact the Legal Department.

(b) **Outside Directorships**

It is a conflict of interest to serve as a director of any company that competes with the Company. Employees may not serve as a director of another company without first obtaining the approval of the Company's Chief Executive Officer (the " CEO"). Directors of the Company are required to review with the Company's Board of Directors (the

“Board”) and the Company’s Secretary other proposed directorships to confirm that accepting such directorship is consistent with the Company’s Corporate Governance Guidelines.

(c) **Business Interests**

If you are considering investing in a client, credit source, supplier or competitor, great care must be taken to ensure that these investments do not compromise your responsibilities to the Company. Many factors should be considered in determining whether a conflict exists, including the size and nature of the investment; your ability to influence the Company’s decisions; your access to confidential information of the Company or of the other company; and the nature of the relationship between the Company and the other company. The Audit Committee of the Board (the “ Audit Committee”) must approve in advance any such investment (other than purchases of $50,000 or less of stock of a publicly traded company).

(d) **Related Parties**

As a general rule, you should avoid conducting business or engaging in a transaction on behalf of the Company with a family member or significant other, or with a company or firm with which you or a family member or significant other is a significant owner or associated or employed in a significant role or position. “Family members” include any person related by blood, adoption or marriage, including grandparents, aunts, uncles, nieces, nephews, cousins, stepchildren, stepparents, and in-laws. “Significant others” include co- habitants, domestic partners, and persons with whom an employee has (or reasonably expects to have) a consensual romantic, sexual, intimate or dating relationship.

The Audit Committee must review and approve in advance all material related party transactions or business or professional relationships. All instances involving such potential related party transactions or business or professional relationships must be reported to the Legal Department who will assess the materiality of the transaction or relationship and elevate the matter to the Audit Committee as appropriate. You must not enter into, develop or continue any such material transaction or relationship without obtaining such prior Audit Committee approval. The Company must report all material related party transactions and business or professional relationships under applicable accounting rules and the Securities and Exchange Commission’s (the “ SEC”) rules and regulations. Any dealings with a related party must be conducted in such a way as to avoid preferential treatment and assure that the terms obtained by the Company are no less favorable than could be obtained from unrelated parties on an arm’s-length basis.

Conflicts of interest or the material nature of a transaction or relationship may not always be clear-cut; if questions arise, you should consult with the Legal Department before entering into, developing or continuing a transaction that could reasonably be expected to give rise to a conflict of interest.

(e) **Other Situations**

Because other conflicts of interest may arise, it would be impractical to attempt to list all possible situations. Any employee, officer or director who becomes aware of a conflict of interest or a potential conflict of interest should bring it to the attention of a supervisor, manager or other appropriate personnel or consult the guidelines described in Section 16 of this Code.

3. Insider Trading

Employees, officers and directors who have access to confidential information must also adhere to our Insider Trader Policy and are not permitted to use or share confidential information for stock trading purposes or for any other purpose except the conduct of our business. All non-public information about the Company should be considered confidential information. To use non-public information about the Company or any other company for personal financial benefit or to "tip" others who might make an investment decision on the basis of this information is not only unethical but also illegal. Please refer to the Company's Insider Trading Policy. The purpose of such policy is to inform you of your legal responsibilities to make clear to you that the misuse of sensitive information is contrary to Company policies and to set forth procedures with respect to trading in the Company's securities.

4. Public Disclosure

The Company is committed to providing full, fair, accurate, timely and understandable disclosure in the periodic reports and other information it files with or submits to the SEC and in other public communications, such as press releases, earnings conference calls and industry conferences, made by the Company. In meeting such standards for disclosure, the Company's executive officers and directors shall at all times strive to comply with the Company's disclosure obligations and, as necessary, appropriately consider and balance the need or desirability for confidentiality with respect to non-public negotiations or other business developments. The Company's CEO and CFO are responsible for establishing effective disclosure controls and procedures and internal controls over financial reporting within the meaning of applicable SEC rules and regulations. The Company expects the CEO and CFO to take a leadership role in implementing such controls and procedures and to position the Company to comply with its disclosure obligations and otherwise meet the foregoing standards for public disclosure.

No employee, officer or director should interfere with, hinder or obstruct the Company's efforts to meet the standards for public disclosure set forth above.

5. Corporate Opportunities

Employees, officers and directors are prohibited from exploiting for their own personal gain opportunities that are discovered through the use of corporate property, information or position unless the opportunity is fully disclosed to the Board and the Board declines to pursue such opportunity. No employee, officer or director may use corporate property, information, or position for improper personal gain, and no employee may compete with the Company directly or indirectly. Employees, officers and directors owe a duty to the Company to advance the Company's legitimate interest when the opportunity to do so arises.

6. Competition and Fair Dealing

We seek to outperform our competition fairly and honestly. We seek competitive advantages through superior performance, never through unethical or illegal business practices. Stealing proprietary information, possessing trade secret information that was obtained without the owner's consent, or inducing such disclosures by past or present employees of other companies is prohibited. Each employee, officer and director should endeavor to respect the rights of and deal fairly with the Company's customers, suppliers, consultants, competitors and employees. No employee, officer or director should take unfair advantage of anyone through manipulation, concealment, abuse of privileged information, misrepresentation of material facts, or any other intentional unfair-dealing practice.

The purpose of business entertainment and gifts in a commercial setting is to create good will and sound working relationships, not to gain unfair advantage with customers. No gift or entertainment should ever be offered, given, provided or accepted by any Company employee, officer, director, family member of any of the foregoing or agent unless it:

- is not a cash gift,
- is consistent with customary business practices,
- is not excessive in value,
- cannot be construed as a bribe or payoff and does not create an appearance of impropriety, and
- is in compliance with the Company's policy on gifts and gratuities and does not violate any laws or rules or regulations.

Please discuss with your Human Resources representative any gifts or proposed gifts which you are not certain are appropriate.

7. Discrimination and Harassment

The diversity of the Company's employees is a tremendous asset. It is the Company's policy to provide equal employment opportunity for all applicants and employees. The Company does not unlawfully discriminate on the basis of race, color, religion, sex (including pregnancy, childbirth, or related medical conditions), national origin, age, disability, marital status, veteran status, or any other basis prohibited under federal, state or local law. In addition, the Company is committed to providing a workplace free of unlawful harassment. This includes not only sexual harassment, but also harassment on any of the bases set forth above. The Company strongly disapproves of and will not tolerate harassment of employees by managers, supervisors, co-workers or non-employees. Similarly, the Company will not tolerate harassment by its employees of non-employees with whom Company employees have a business, service, or professional relationship. For information about the Company's policies against discrimination and harassment, please refer to the Company's Employee Handbook.

All of our employees deserve a positive work environment where they will be respected and we are committed to providing an environment that supports honesty, integrity, respect, trust and responsibility. All of our employees should contribute to the creation and maintenance of such an environment and our executive officers and management and supervisory personnel should take a leadership role in achieving a work environment that meets our diversity standards and is free from the fear of retribution.

8. Health and Safety

The Company strives to provide each employee with a safe and healthful work environment. Each employee has a responsibility for maintaining a safe and healthy workplace for all employees by following safety and health rules and practices and reporting accidents, injuries and unsafe equipment, practices or conditions.

Violence and threatening behavior are not permitted and the use of illegal drugs or alcohol in the workplace will not be tolerated. Employees should report to work in condition to perform their duties, free from the influence of illegal drugs or alcohol.

9. Record-Keeping

The purpose of this policy is to set forth and convey the Company's requirements in managing records, including all recorded information regardless of medium or characteristics. Records include paper documents, CDs, DVDs, email, computer hard disks, email, floppy disks, microfiche, microfilm or all other media. The Company requires honest and accurate recording and reporting of information in order to make responsible business decisions.

Many employees, officers and directors regularly use business expense accounts, which must be documented and recorded accurately. If you are not sure whether a certain expense is legitimate, ask your supervisor or contact the Company's Controller. Please refer to the Company's business travel policy for further information regarding business expenses.

The Company's responsibilities to its shareholders and the investing public require that all of the Company's books, records, accounts and financial statements must be maintained in reasonable detail, must appropriately reflect the Company's transactions and must conform both to applicable legal requirements and to the Company's system of internal controls and generally accepted accounting practices and principles. No one should rationalize or even consider misrepresenting facts or falsifying records. Unrecorded or "off the books" funds or assets should not be maintained unless permitted by applicable law or regulation.

Business records and communications often become public, and we should avoid exaggeration, derogatory remarks, guesswork, or inappropriate characterizations of people and companies that can be misunderstood. This applies equally to e-mail, internal memos, and formal reports. Records should always be retained or destroyed according to the Company's record retention policies. No record or document shall be destroyed which is the subject of a subpoena or other legal process or if there is a reasonable belief that litigation proceedings or government investigative proceedings are likely to occur and it is anticipated that such record or document is relevant to such proceedings. All employees are expected to comply with all federal, state and industry-specific record retention rules and requirements as well as the Company's record retention policies.

10. Confidentiality

Employees, officers and directors must maintain the confidentiality of confidential information entrusted to them by the Company or its customers, except when disclosure is authorized by the CEO or CFO or required by laws or regulations. Confidential information includes all non-public information that might be of use to competitors, or harmful to the Company or its customers, if disclosed. It also includes information that suppliers and customers have entrusted to us. The obligation to preserve confidential information continues even after employment ends.

The Company and its employees, agents, consultants and contractors must cooperate with appropriate government inquiries and investigations. In this context, however, it is important to protect the legal rights of the Company with respect to its confidential information. All government inquiries and requests for information, documents or investigative interviews (whether in person, by phone, email or written correspondence) must be referred to the General Counsel, who will be responsible for coordinating a response. No financial information may be disclosed without the prior approval of the CEO or CFO.

11. Protection and Proper Use of Company Assets

All employees, officers and directors should endeavor to protect the Company's property, electronic communications systems, information resources, facilities and equipment and ensure their efficient use. Theft, carelessness, and waste have a direct impact on the Company's profitability. Any suspected incident of fraud or theft should be immediately reported for investigation pursuant to Section 16 of this Code. Company assets should not be used for non-Company business, although we recognize that incidental personal use may be permitted without adversely affecting the interests of the Company. Personal use of Company assets must always be in accordance with Company policy. You should consult your Human Resources representative for appropriate guidance and permission.

The obligation of employees, officers and directors to protect the Company's assets includes its proprietary information. Proprietary information includes intellectual property such as trade secrets, patents, trademarks and copyrights, as well as business, marketing and service plans, designs, databases, records, salary information and any unpublished financial data and reports. Unauthorized use or distribution of this information would violate Company policy. It could also be illegal and result in civil or even criminal penalties.

Unauthorized duplication of copyrighted documents or computer software violates the law. You must neither engage in nor tolerate the making or using of unauthorized documents or software copies and must comply will all license and purchase terms regulating the use of any document or software. The Company will provide all documents and software needed to meet legitimate needs.

12. Payments to Government Personnel

The U.S. Foreign Corrupt Practices Act prohibits giving anything of value, directly or indirectly, to officials of foreign governments or foreign political candidates in order to obtain or retain business. It is strictly prohibited to make illegal payments to government officials of any country.

In addition, there are a number of federal and state laws and regulations regarding business gratuities which may be accepted by U.S. or state government personnel. The promise, offer or delivery to an official or employee of the U.S. government or a state government of a gift, favor or other gratuity in violation of these rules would not only violate Company policy but could also be a criminal offense. Local governments, as well as foreign governments, may have similar rules. You must consult with the Legal Department prior to making any such gifts.

13. Waivers of the Code of Business Conduct and Ethics

From time to time, the Company may waive some provisions of this Code. Any waiver of this Code for executive officers or directors of the Company may be made only by the Board or the Audit Committee and must be promptly disclosed as required by the rules of the SEC and The NASDAQ Global Market. Any waiver for other employees of the Company may be made by the Board, the Audit Committee or our General Counsel.

14. Reporting any Illegal or Unethical Behavior; No Retaliation

It is your obligation and ethical responsibility to help enforce this Code, and to that end, you should promptly report violations of this Code in accordance with the guidelines set forth in Section 16 of this Code. Employees, officers and directors are encouraged to report to supervisors, managers, his or her Human Resources business partners or any member of the Legal Department observed or suspected illegal, improper or unethical behavior and when in doubt about the best course of action in a particular situation. You may also report any violation of this Code anonymously through the EthicsPoint Hotline at 866.294.9318. You should know that reprisal, threats, retribution or retaliation against any person who has in good faith reported a violation or a suspected violation of law, this Code or other Company policies, or against any person who is assisting in any investigation or process with respect to such a violation, is both a violation of Company policy and is prohibited by a variety of state and federal civil and criminal laws including the Sarbanes-Oxley Act of 2002. Accordingly, it is the policy of the Company not to allow retaliation for reports of wrongdoing or misconduct by others made in good faith by employees. Employees, officers and directors are expected to cooperate in internal investigations of wrongdoing or misconduct.

15. Accounting Complaints

The Company’s policy is to comply with all applicable financial reporting and accounting regulations. If any employee, officer or director of the Company has unresolved concerns or complaints regarding questionable accounting, internal control or auditing matters of the Company, then he or she is encouraged to submit those concerns or complaints in accordance with the Company’s Complaint Procedures for Accounting and Auditing Matters.

16. Compliance Procedures

We must all work to ensure prompt and consistent action against violations of this Code. However, in some situations it is difficult to know right from wrong. Since we cannot anticipate every situation that will arise, you should keep in mind the following steps as you consider a particular problem or concern.

(a) Make sure you have all the facts. In order to reach the right solutions, we must be as fully informed as possible.

(b) Ask yourself: What specifically am I being asked to do or ignore? Does it seem illegal, unethical or improper? This will enable you to focus on the specific question you are faced with, and the alternatives you have. Use your judgment and common sense; if something seems unethical or improper, it may very well be.

(c) Clarify your responsibility and role. In most situations, there is shared responsibility. Are your colleagues informed? It may help to get others involved and discuss your concerns.

(d) You should report violations of this Code to or otherwise discuss your concerns in this regard with your supervisor or your Human Resources business partner, any member of the Legal Department or anonymously through the EthicsPoint Hotline at 866.294.9318. In many cases, your supervisor will be more knowledgeable about the question or concern, and will appreciate being brought into the decision-making process. Remember that it is your supervisor's responsibility to help solve problems. Supervisors and Human Resources business partners are obligated to report violations of this Code to the General Counsel.

(e) In the case where it may not be appropriate to report a violation to or discuss your concerns with your supervisor or your Human Resources business partner, or where you do not feel comfortable approaching your supervisor to report a violation or discuss your concerns, you may report the violation or discuss your concerns with the General Counsel or any member of the Legal Department. If you prefer to report violations or your concerns in writing, on an anonymous basis, please address your concerns to our General Counsel at the following address: FairPoint Communications, Inc., 521 East Morehead Street, Suite 500, Charlotte, NC 28202, Attention: Shirley J. Linn.

(f) You may also report any violations of this Code on an anonymous and confidential basis through the EthicsPoint Hotline link set forth on the intranet and on our website or by calling the EthicsPoint Hotline at 866.294.9318. Your report will be sent to the Audit Committee Chairperson and the General Counsel on a no-name basis unless you grant permission for your identity to be revealed.

(g) Reports of violations of this Code or other complaints made to the EthicsPoint Hotline or to the persons referenced above will be reviewed by the General Counsel or her designee, who shall either (i) conduct an investigation of the facts and circumstances as she deems appropriate and report her conclusions and remedial actions taken, if any, to the Audit Committee or (ii) report the alleged violation or other complaint to the Audit Committee for further direction. The Chairperson of the Audit Committee will also receive all EthicsPoint Hotline reports directly from EthicsPoint.

(h) Your communications of violations or concerns will be kept confidential to the extent feasible and appropriate, and except as required by law.

(i) All reports of violations of the Code will be promptly investigated and addressed. If you are not satisfied with the response, you may contact the Audit Committee directly.

(j) Always ask first, act later: If you are unsure of what to do in any situation, seek guidance before you act.

17. Compliance Required

The matters covered in this Code are of the utmost importance to the Company, its shareholders and its business partners, and are essential to the Company's ability to conduct its business in accordance with its stated values. We expect all of our employees, officers, directors, agents, contractors, consultants and representatives to adhere to these rules in carrying out their duties for the Company.

Any individual whose actions are found to violate these policies or any other policies of the Company will be subject to disciplinary action, up to and including immediate termination of employment or business relationship. Where the Company has suffered a loss, it may pursue its legal remedies against the individuals or entities responsible.

18. Administration

No code, including this one, can cover all situations. Similarly, exceptional circumstances may occur which do not fit neatly within the guidelines of this Code or where strict application of this Code may not produce a fair result. Overall administration of this Code including its interpretation and amendment is under the authority of the Audit Committee.

EXHIBIT A

ACKNOWLEDGMENT OF RECEIPT OF CODE
OF BUSINESS CONDUCT AND ETHICS

I have received and read the Company's Code of Business Conduct and Ethics (the "Code"). I understand the standards and policies contained in the Code and understand that there may be additional policies or laws specific to my position as an employee, officer or director of the Company. I further agree to comply with the Code.

If I have questions concerning the meaning or application of the Code, any Company policies, or the legal and regulatory requirements applicable to my position, I know I can consult with my supervisor, my Human Resources representative or the Legal Department, knowing that my questions or reports to these sources will be maintained in confidence to the extent feasible and appropriate.

____
Employee Name

____
Signature

____
Date

Please sign and return this form to:

Human Resources/Staffing
FairPoint Communications, Inc.
770 Elm Street
Manchester, NH 03101
Fax No. (603) 641-1799

Exhibit 21

FAIRPOINT COMMUNICATIONS, INC.
(formerly known as MJD Communications, Inc.)
SUBSIDIARIES

Name	Jurisdiction of Incorporation
ST Enterprises, Ltd.	**Kansas**
FairPoint Vermont, Inc.	Delaware
ST Long Distance, Inc.	Delaware
Sunflower Telephone Company, Inc.	Kansas
Northland Telephone Company of Maine, Inc.	Maine
MJD Ventures, Inc.	**Delaware**
GTC Communications, Inc. (f/k/a TPG Communications, Inc.)	Delaware
St. Joe Communications, Inc.	Florida
GTC, Inc.	Florida
Fremont Telcom Co.	Idaho
Fretel Communications, LLC	Idaho
C-R Communications, Inc.	Illinois
C-R Telephone Company	Illinois
C-R Long Distance, Inc.	Illinois
Community Service Telephone Co.	Maine
Sidney Telephone Company	Maine
Utilities, Inc.	Maine
China Telephone Company	Maine
Maine Telephone Company	Maine
Standish Telephone Company	Maine
UI Long Distance, Inc.	Maine
Berkshire Telephone Corporation	New York
Berkshire Cable Corp.	New York
Berkshire Cellular, Inc.	New York
Berkshire New York Access, Inc.	New York
Chautauqua and Erie Telephone Corporation	New York
Chautauqua & Erie Communications, Inc. (d/b/a C& E Teleadvantage)	New York
C & E Communications, Ltd.	New York
Taconic Telephone Corp.	New York
Taconic Technology Corp.	New York
Taconic TelCom Corp.	New York
The Columbus Grove Telephone Company	Ohio
Quality One Technologies, Inc.	Ohio
The Germantown Independent Telephone Company	Ohio
Germantown Long Distance Company	Ohio
The Orwell Telephone Company	Ohio

Name	Jurisdiction of Incorporation
Orwell Communications, Inc.	Ohio
Chouteau Telephone Company	Oklahoma
Bentleyville Communications Corporation	Pennsylvania
BE Mobile Communications, Incorporated	Pennsylvania
Marianna and Scenery Hill Telephone Company	Pennsylvania
Marianna Tel, Inc.	Pennsylvania
Peoples Mutual Telephone Company	Virginia
Peoples Mutual Long Distance Company	Virginia
Comerco, Inc.	Washington
YCOM Networks, Inc.	Washington
Ellensburg Telephone Company	Washington
Elltel Long Distance Corp.	Delaware
MJD Services Corp.	**Delaware**
Big Sandy Telecom, Inc.	Delaware
Bluestem Telephone Company	Delaware
Columbine Telecom Company (f/k/a Columbine Acquisition Corp.)	Delaware
Odin Telephone Exchange, Inc.	Illinois
Ravenswood Communications, Inc.	Illinois
El Paso Long Distance Company	Illinois
The El Paso Telephone Company	Illinois
FairPoint Communications Missouri, Inc.	Missouri
Unite Communications Systems, Inc.	Missouri
ExOp of Missouri, Inc.	Missouri
FairPoint Carrier Services, Inc.	**Delaware**
(f/k/a FairPoint Communications Solutions Corp., f/k/a FairPoint Communications Corp.)	
FairPoint Broadband, Inc.	**Delaware**
Northern New England Telephone Operations LLC	**Delaware**
Telephone Operating Company of Vermont LLC	Delaware
Enhanced Communications of Northern New England Inc.	**Delaware**
FairPoint Logistics, Inc. (f/k/a MJD Capital Corp.)	**South Dakota**

Exhibit 23.1

Consent of Independent Registered Public Accounting Firm

We consent to the incorporation by reference in the Registration Statement (Form S-8 No. 333-171835) pertaining to the 2010 Long Term Incentive Plan of our report dated March 31, 2011, with respect to the consolidated financial statements of FairPoint Communications, Inc. in this Annual Report (Form 10-K) for the year ended December 31, 2010.

/s/ Ernst & Young LLP

Charlotte, North Carolina
March 31, 2011

Exhibit 31.1

CERTIFICATION

I, Paul H. Sunu, certify that:

1. I have reviewed this Annual Report on Form 10-K of FairPoint Communications, Inc. (the “Company”);

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report fairly present in all material respects the financial condition, results of operations and cash flows of the Company as of, and for, the periods presented in this report;

4. The Company’s other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in the Securities Exchange Act of 1934, as amended (the “Exchange Act”) Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the Company and have:

(i) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(ii) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(iii) Evaluated the effectiveness of the Company’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(iv) Disclosed in this report any change in the Company’s internal control over financial reporting that occurred during the Company’s most recent fiscal quarter (the Company’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the Company’s internal control over financial reporting;

5. The Company’s other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Company’s auditors and the audit committee of the Company’s board of directors (or persons performing the equivalent functions):

(i) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Company’s ability to record, process, summarize and report financial information; and

(ii) Any fraud, whether or not material, that involves management or other employees who have a significant role in the Company’s internal control over financial reporting.

Date: March 31, 2011

/s/ Paul H. Sunu

Paul H. Sunu

Chief Executive Officer

Exhibit 31.2

CERTIFICATION

I, Ajay Sabherwal, certify that:

1. I have reviewed this Annual Report on Form 10-K of FairPoint Communications, Inc. (the “Company”);

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report fairly present in all material respects the financial condition, results of operations and cash flows of the Company as of, and for, the periods presented in this report;

4. The Company’s other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in the Securities Exchange Act of 1934, as amended (the “Exchange Act”) Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the Company and have:

(i) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(ii) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(iii) Evaluated the effectiveness of the Company’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(iv) Disclosed in this report any change in the Company’s internal control over financial reporting that occurred during the Company’s most recent fiscal quarter (the Company’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the Company’s internal control over financial reporting;

5. The Company’s other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Company’s auditors and the audit committee of the Company’s board of directors (or persons performing the equivalent functions):

(i) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Company’s ability to record, process, summarize and report financial information; and

(ii) Any fraud, whether or not material, that involves management or other employees who have a significant role in the Company’s internal control over financial reporting.

Date: March 31, 2011

/s/ Ajay Sabherwal

Ajay Sabherwal
Chief Financial Officer

Exhibit 32.1

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Annual Report on Form 10-K of FairPoint Communications, Inc. (the “Company”) for the year ended December 31, 2010 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Paul H. Sunu, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

1. The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Paul H. Sunu
Paul H. Sunu
Chief Executive Officer

March 31, 2011

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

Exhibit 32.2

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Annual Report on Form 10-K of FairPoint Communications, Inc. (the "Company") for the year ended December 31, 2010 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Ajay Sabherwal, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

1. The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Ajay Sabherwal
Ajay Sabherwal
Chief Financial Officer

March 31, 2011

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

Exhibit 99.5

FAIRPOINT COMMUNICATIONS, INC.

INSIDER TRADING POLICY

and Guidelines with Respect to
Certain Transactions in Company Securities
(January 24, 2011)

This Insider Trading Policy (the "**Policy**") provides guidelines to employees, officers and directors of FairPoint Communications, Inc. (the " **Company**") with respect to transactions in the Company's securities. The Company has adopted this policy and the procedures set forth herein to help prevent insider trading and to assist the Company's employees, officers and directors in complying with their obligations under the federal securities laws. Employees, officers and directors are individually responsible to understand and comply with this Policy.

Applicability of Policy

This Policy applies to all transactions in the Company's securities, including common stock, restricted stock, restricted stock units, options and warrants to purchase common stock and any other debt or equity securities the Company may issue from time to time, such as bonds, preferred stock and convertible debentures, as well as to derivative securities relating to the Company's securities, whether or not issued by the Company, such as exchange-traded options. It applies to all employees, officers and directors of the Company and members of their immediate families who reside with them or anyone else who lives in their household and family members who live elsewhere but whose transactions in Company securities are directed by such employees, officers and directors or subject to their influence and control (collectively referred to as " **Family Members**"). This Policy also imposes specific black-out period and pre-clearance procedures on officers, directors and certain other designated employees who receive or have access to Material Nonpublic Information (as defined below) regarding the Company and/or are subject to the reporting provisions and trading restrictions of Section 16 of the Securities Exchange Act of 1934 (the **"Exchange Act"**).

The current "**Insider Trading Compliance Officer**" referred to herein is the General Counsel of the Company.

Definition of Material Nonpublic Information

It is not possible to define all categories of material information. However, information should be regarded as material if there is a substantial likelihood that it would be considered important to a reasonable investor in making a voting decision or an investment decision to buy, hold or sell securities. Any information that could be expected to affect the market price of the Company's securities, whether such information is positive or negative, should be considered material. Because trading that receives scrutiny will be evaluated after the fact with the benefit of hindsight, questions as to the materiality of particular information should be resolved in favor of materiality, and trading should be avoided. Officers, directors and certain other employees are subject to the Blackout Period provisions described in Section 8.

While it may be difficult under this standard to determine whether particular information is material, there are various categories of information that are particularly sensitive and, as a general rule, should always be considered material. Examples of such information may include:

- Financial results;
- Projections of future earnings or losses;
- News of a pending or proposed merger, acquisition or tender offer;
- News of a pending or proposed acquisition or disposition of significant assets;
- Actions of regulatory agencies;
- News of a pending or proposed acquisition or disposition of a subsidiary;
- Impending bankruptcy or financial liquidity problems;
- Gain or loss of a significant customer or supplier;
- Significant energy generation or supply problems;
- Significant pricing changes;
- Stock splits and stock repurchase programs;
- New equity or debt offerings;
- Significant litigation exposure due to actual or threatened litigation; and
- Changes in senior management.

"**Material Nonpublic Information**" is material information that has not been previously disclosed to the general public through a press release or securities filings and is otherwise not available to the general public.

Statement of Policy
General Policy

It is the policy of the Company to oppose the unauthorized disclosure of any nonpublic information acquired in the workplace, the use of Material Nonpublic Information in securities trading and any other violation of applicable securities laws.

Specific Policies

1. Trading on Material Nonpublic Information. No employee, officer or director of the Company and its subsidiaries and no Family Member of any such person, shall engage in any transaction involving a purchase or sale of the Company's securities, including any offer to purchase or offer to sell (other than pursuant to a trading plan that complies with SEC Rule 10b5-1 pre-cleared by the Company's Insider Trading Compliance Officer), during any period commencing with the date that he or she possesses Material Nonpublic Information concerning the Company and ending at the close of business on the second Trading Day (as defined below) following the date of public disclosure of that information, or at such time as such nonpublic information is no longer material. As used in this Policy, the term "**Trading Day**" shall mean a day on which national stock exchanges are open for trading. If, for example, the Company were to make an announcement on a Monday, Designated Insiders (as defined below) shall not trade in the Company's securities until Thursday.

2. Tipping. No employee, officer or director of the Company shall disclose or pass on ("tip") Material Nonpublic Information to any other person, including a Family Member or friend, nor shall such person make recommendations or express opinions on the basis of Material Nonpublic Information as to trading in the Company's securities.

3. Confidentiality of Nonpublic Information. Nonpublic information relating to the Company is the property of the Company and the unauthorized disclosure of such information is forbidden.

Potential Criminal and Civil Liability
and/or Disciplinary Action

4. Liability for Insider Trading. Any employee, officer or director who engages in a transaction in the Company's securities at a time when they have knowledge of Material Nonpublic Information may be subject to penalties and sanctions, including:

- up to 20 years in jail;
- a criminal fine of up to $5,000,000;
- a civil penalty of up to $1,000,000 or, if greater, 3 times the profit gained or loss avoided; and
- SEC civil enforcement injunctions.

5. Liability for Tipping. Any employee, officer or director who tips ("**tippers**") a third party (commonly referred to as a "**tippee**") may also be liable for improper transactions by tippees to whom they have tipped Material Nonpublic Information regarding the Company or to whom they have made recommendations or expressed opinions on the basis of such information as to trading in the Company's securities. Tippers and tippees would be subject to the same penalties and sanctions as described above, and the SEC has imposed large penalties even when the tipper or tippee did not profit from the trading. The SEC, the stock exchanges and Nasdaq use sophisticated electronic surveillance techniques to uncover insider trading.

6. Control Persons. The Company and its supervisory personnel, if they fail to take appropriate steps to prevent illegal insider trading, may in certain circumstances, be subject to the following penalties:

- a civil penalty of up to 3 times the profit gained or loss avoided as a result of the employee's violation; and
- a criminal penalty of up to $25,000,000.

7. Possible Company-Imposed Disciplinary Actions. Employees of the Company who violate this Policy shall also be subject to disciplinary action by the Company, which may include ineligibility for future participation in the Company's equity incentive plans or termination of employment.

Mandatory Guidelines

8. Trading Blackout Period. To ensure compliance with this Policy and applicable federal securities laws, and to avoid even the appearance of trading on the basis of inside information, the Company requires that officers, directors and all employees in the accounting and finance departments of the Company designated by the Company's Insider Trading Compliance Officer as subject to the Blackout Period (as defined below) prohibitions because of their access to the Company's internal financial statements or other Material Nonpublic Information regarding the Company's performance during annual and quarterly fiscal periods (collectively, "**Designated Insiders**") and Family Members of the foregoing, refrain from conducting transactions involving the purchase or sale of the Company's securities during the Blackout Periods established below. Each of the following periods will constitute a **"Blackout Period":**

> The period commencing on the tenth calendar day of the third fiscal month of each of the first three fiscal quarters (i.e. March 10, June 10 and September 10, as applicable) and commencing on the first calendar day of the third fiscal month of the fourth fiscal quarter (i.e. December 1) and, in each case, ending at the close of business on the second Trading Day following the date of public disclosure of the financial results for such fiscal quarter (which is generally 30 to 75 days after the end of such quarter). If such public disclosure occurs on a Trading Day before the markets close, then that day shall be considered the first Trading Day. If such public disclosure occurs after the markets close on a Trading Day, then the date of public disclosure shall not be considered the first Trading Day following the date of public disclosure.

In addition to the Blackout Periods described above, the Company may announce "special" Blackout Periods from time to time. Typically, this will occur when there are nonpublic developments that would be considered material for insider trading law purposes, such as, among other things, developments relating to regulatory proceedings or a major corporate transaction. Depending on the circumstances, a "special" Blackout Period may apply to all Designated Insiders or only a specific group of Designated Insiders. The Insider Trading Compliance Officer will provide written notice to Designated Insiders subject to a "special" Blackout Period. Any person made aware of the existence of a "special" Blackout Period should not disclose the existence of the Blackout Period to any other person. The failure of the Company to designate a person as being subject to a "special" Blackout Period will not relieve that person of the obligation not to trade while aware of Material Nonpublic Information. As used in this Policy, the term "Blackout Period" shall mean all periodic Blackout Periods and all "special" Blackout Periods announced by the Company.

The purpose behind the Blackout Period is to help establish a diligent effort to avoid any improper transactions. Trading in the Company's securities outside a Blackout Period should not be considered a "safe harbor", and all employees, officers and directors and other persons subject to this Policy should use good judgment at all times. Even outside a Blackout Period, any person possessing Material Nonpublic Information concerning the Company should not engage in any transactions in the Company's securities until such information has been known publicly for at least two Trading Days after the date of announcement. Although the Company may from time to time impose special Blackout Periods, because of developments known to the Company and not yet disclosed to the public, each person is individually responsible at all times for compliance with the prohibitions against insider trading.

9. Pre-clearance of Trades. The Company has determined that all executive officers and directors and their Family Members must refrain from trading in the Company's securities, without first complying with the Company's "pre-clearance" process. Each executive officer or director must contact the Company's Insider Trading Compliance Officer not less than two (2) business days prior to commencing any trade in the Company's securities. This pre-clearance requirement applies to any transaction or transfer involving the Company's securities, including a stock plan transaction such as an option exercise, or a gift, transfer to a trust or any other transfer.

The Insider Trading Compliance Officer must pre-clear each proposed trade or transfer. The Insider Trading Compliance Officer is not under any obligation to approve a trade submitted for pre-clearance, and may determine not to permit a trade.

To facilitate the process, the Company has prepared a pre-clearance form, attached hereto as Exhibit A, to be completed and provided to the Insider Trading Compliance Officer. The Insider Trading Compliance Officer will assist with the approval process. No trade or transfer may be effected until the requesting employee, officer or director has received the approved Pre-Clearance Request Form, even if two (2) business days have passed since the Pre-Clearance Request Form was submitted.

The Company may also find it necessary, from time to time, to require compliance with the pre-clearance process from employees designated as Designated Insiders.

Any executive officer and director who wishes to implement a trading plan under SEC Rule 10b5-1 must first pre-clear the plan with the Insider Trading Compliance Officer. As required by Rule 10b5-1, an executive officer or director may enter into a trading plan only when he or she is not in possession of Material Nonpublic Information. In addition, a trading plan may not be entered into during a Blackout Period. Transactions effected pursuant to a pre-cleared trading plan will not require further pre-clearance at the time of the transaction.

10. Individual Responsibility. Every employee, officer and director has the individual responsibility to comply with this Policy against insider trading, regardless of whether a transaction is executed outside a Blackout Period or is pre-cleared by the Company. The restrictions and procedures are intended to help avoid inadvertent instances of improper insider trading, but appropriate judgment should always be exercised by each employee, officer and director in connection with any trade in the Company's securities.

An employee, officer or director may, from time to time, have to forego a proposed transaction in the Company's securities even if he or she planned to make the transaction before learning of the Material Nonpublic Information and even though the Insider believes he or she may suffer an economic loss or forego anticipated profit by waiting.

Certain Exceptions

11. Stock Options Exercises. For purposes of this Policy, the Company considers that the exercise of stock options under the Company's stock option plans (but not the sale of the underlying stock) to be exempt from this Policy. This Policy does apply, however, to any sale of stock as part of a broker-assisted "cashless" exercise of an option, or any market sale for the purpose of generating the cash needed to pay the exercise price of an option.

12. 401(k) Plan. This Policy does not apply to purchases of Company stock in the Company's 401(k) plan resulting from periodic contributions of money to the plan pursuant to payroll deduction elections. This Policy does apply, however, to certain elections that may be made under the 401(k) plan, including (a) an election to increase or decrease the percentage of periodic contributions that will be allocated to the Company stock fund, if any, (b) an election to make an intra-plan transfer of an existing account balance into or out of the Company stock fund, (c) an election to borrow money against a 401(k) plan account if the loan will result in a liquidation of some or all of a participant's Company stock fund balance and (d) an election to pre-pay a plan loan if the pre-payment will result in allocation of loan proceeds to the Company stock fund.

13. Employee Stock Purchase Plan. This Policy does not apply to purchases of Company stock in the Company's employee stock purchase plan, if any, resulting from periodic contributions of money to the plan pursuant to the elections made at the time of enrollment in the plan. This Policy also does not apply to purchases of Company stock resulting from lump sum contributions to the plan, provided that the participant elected to participate by lump-sum payment at the beginning of the applicable enrollment period. This Policy does apply to a participant's election to participate in or increase his or her participation in the plan, and to a participant's sales of Company stock purchased pursuant to the plan.

14. Dividend Reinvestment Plan. This Policy does not apply to purchases of Company stock under the Company's dividend reinvestment plan, if any, resulting from reinvestment of dividends paid on Company securities. This Policy does apply, however, to voluntary purchases of Company stock that result from additional contributions a participant chooses to make to the plan, and to a participant's election to participate in the plan or increase his level of participation in the plan. This Policy also applies to his sale of any Company stock purchased pursuant to the plan.

Applicability of Policy to Inside Information Regarding Other Companies

This Policy and the guidelines described herein also apply to Material Nonpublic Information relating to other companies, including the Company's customers, vendors or suppliers ("**business partners**"), when that information is obtained in the course of employment with, or other services performed on behalf of, the Company. Civil and criminal penalties, and termination of employment, may result from trading on inside information regarding the Company's business partners. All employees should treat Material Nonpublic Information about the Company's business partners with the same care required with respect to information related directly to the Company.

Section 16 Liability — Directors and Officers

Certain officers and all directors of the Company must also comply with the reporting obligations and limitations on short-swing profit transactions set forth in Section 16 of the Securities Exchange Act of 1934 (the "**Exchange Act**"). The practical effect of these provisions is that any officer or director who purchases and sells the Company's securities within a six-month period must disgorge all profits to the Company whether or not he or she had knowledge of any Material Nonpublic Information. Under these provisions, and so long as certain other criteria are met, neither the receipt of stock or stock options under the Company's stock plans, nor the exercise of options nor the receipt of stock under the Company's employee stock purchase plan, dividend reinvestment plan or the Company's 401(k) retirement plan is deemed a purchase that can be matched against a sale for Section 16(b) short-swing profit disgorgement purposes; however, the sale of any such shares so obtained is a sale for these purposes. Moreover, no such officer or director may ever make a short sale of the Company's common stock which is unlawful under Section 16(c) of the Exchange Act. The Company will provide separate memoranda and other appropriate materials to the affected officers and directors regarding compliance with Section 16 and its related rules.

The rules on recovery of short-swing profits are absolute and do not depend on whether a person has Material Nonpublic Information.

Publicly Traded Options

A transaction in options is, in effect, a bet on the short-term movement of the Company's stock and therefore creates the appearance that the employee, officer or director is trading based on inside information. Transactions in options also may focus the trader's attention on short-term performance at the expense of the Company's long-term objectives. Accordingly, transactions in puts, calls or other derivative securities, on an exchange or in any other organized market, are prohibited. Option positions arising from certain types of hedging transactions are governed by the section below captioned "Hedging or Monetization Transactions."

Hedging or Monetization Transactions

Certain forms of hedging or monetization transactions, such as zero-cost collars and forward sale contracts, allow an employee, officer or director to lock in much of the value of his stock holdings, often in exchange for all or part of the potential for upside appreciation in the stock. These transactions would allow an employee, officer or director to continue to own the covered securities, but without the full risks and rewards of ownership. When that occurs, their interests and the interests of the Company and its shareholders may be misaligned and may signal a message to the trading market that may not be in the best interests of the Company and its shareholders at the time it is conveyed. Therefore, any person wishing to enter into such an arrangement must first pre-clear the proposed transaction with the Board of Directors. Any request for pre-clearance of a hedging or similar arrangement must be submitted to the Board of Directors and the Company's Insider Trading Compliance Officer at least two weeks prior to the proposed execution of documents evidencing the proposed transaction and must set forth a justification for the proposed transaction. This will allow the Company to consider the time and circumstances of the proposed transaction and if necessary direct how the transaction is disclosed to the public.

Margin Accounts and Pledges

Securities held in a margin account may be sold by the broker without the customer's consent if the customer fails to meet a margin call. Similarly, securities pledged (or hypothecated) as collateral for a loan may be sold in foreclosure if the borrower defaults on the loan. A margin sale or foreclosure sale may occur at a time when the pledgor is aware of Material Nonpublic Information or otherwise is not permitted to trade in Company securities pursuant to Blackout Period restrictions. Thus, unless pre-cleared by the Insider Trading Compliance Officer, employees, officers and directors are prohibited from pledging Company securities as collateral for a loan. Any employee, officer or director preparing to pledge his Company securities must clearly demonstrate his or her financial capacity to repay the loan without resort to the pledged securities. Any person proposing to pledge Company securities as collateral for a loan must submit a request for approval to the Insider Trading Compliance Officer at least two weeks prior to the proposed execution of documents evidencing the proposed pledge.

Post-Termination Transactions

This Policy continues to apply to transactions in Company securities even after an employee, officer or director has resigned or terminated employment. If the person who resigns or separates from the Company is in possession of Material Nonpublic Information at that time, he or she may not trade in Company securities until that information has become public or is no longer material.

Communications with the Public

The Company is subject to the SEC's Regulation FD and must avoid selective disclosure of Material Nonpublic Information. The Company has established procedures for releasing material information in a manner that is designed to achieve broad public dissemination of the information immediately upon its release. Pursuant to Company policy, only the executive officers who have been authorized to engage in communications with the public may disclose information to the public regarding the Company and its business activities and financial affairs. The public includes, without limitation, research analysts, portfolio managers, financial and business reporters, news media and investors. In addition, because of the risks associated with the exchange of information through such communications media, employees are strictly prohibited from posting or responding to messages containing information regarding the Company on Internet "bulletin boards," Internet "chat rooms" or in similar online forums. Employees who inadvertently disclose any Material Nonpublic Information must immediately advise the Insider Trading Compliance Officer so the Company can assess its obligations under Regulation FD and other applicable securities laws.

Inquiries

Please direct questions as to any of the matters discussed in this Policy to the Company's Insider Trading Compliance Officer at the following address:

General Counsel
FairPoint Communications, Inc.
521 E. Morehead Street, Suite 500
Charlotte, NC 28202
Telephone: (704) 227-3662
E-mail: slinn@fairpoint.com and ssowell@fairpoint.com

Certifications

All employees, officers and directors of the Company must certify their understanding of, and intent to comply with, this Policy. Please return the enclosed certification immediately to:

General Counsel
FairPoint Communications, Inc.
521 E. Morehead Street, Suite 500
Charlotte, NC 28202
Fax: (704) 344-1594

CERTIFICATIONS

I certify that:

1. I have received, read and understand the Company’s Insider Trading Policy, dated January 24, 2011. I understand that the Insider Trading Compliance Officer is available to answer any questions I have regarding the Insider Trading Policy.

2. I will comply with the Insider Trading Policy for as long as I am subject to the Policy.

Signature: ___________

Print Name: ___________

Date: ___________

EXHIBIT A

FAIRPOINT COMMUNICATIONS, INC.
PRE-CLEARANCE REQUEST FORM

To: FairPoint Communications, Inc. (the “Company”)
Insider Trading Compliance Officer

From: ___________

Re: Proposed transaction in the Company’s Securities

This is to advise you that the undersigned intends to execute a transaction in the Company’s securities on ___________ ____, 20__, and does hereby request that the Company pre-clear the transaction as required by the Company’s Insider Trading Policy (the “Policy”).

The general nature of the transaction is as follows (i.e. open market purchase of 10,000 shares of common stock through NASDAQ, privately negotiated sale of warrants for the purchase of 5,000 shares of common stock, etc.):

____

____

____

The undersigned is not in possession of Material Nonpublic Information (as defined in the Insider Trading Policy) about the Company and will not enter into the transaction if the undersigned comes into possession of Material Nonpublic Information about the Company between the date hereof and the proposed trade execution date.

The undersigned has read and understands the Policy and certifies that the above proposed transaction will not violate the Policy.

The undersigned agrees to advise the Company promptly if, as a result of future developments, any of the foregoing information becomes inaccurate or incomplete in any respect. The undersigned understands that the Company may require additional information about the transaction, and agrees to provide such information upon request.

Dated: ___________

Very truly yours,

____
[Signature]

____
[Print Name]

Approved:

____
Insider Trading Compliance Officer

LEGAL_US_E # 88315277.2
Charlotte #25974 v3

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

Form 10-K

(Mark One)

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

For the fiscal year ended December 31, 2011.

or

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

For the transition period from to

Commission File Number 001-32408

FairPoint Communications, Inc.

(Exact Name of Registrant as Specified in Its Charter)

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

Registrant's Telephone Number, Including Area Code:
(704) 344-8150

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	Name of Exchange on Which Registered
Common Stock, par value $0.01 per share	The Nasdaq Stock Market LLC (Nasdaq Capital Market)

Securities registered pursuant to Section 12(g) of the Act:
None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☐ No ☒

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Act. Yes ☐ No ☒

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

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (Section 229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☐

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

Large accelerated filer	☐	Accelerated filer	☒
Non-accelerated filer	☐ (Do not check if a smaller reporting company)	Smaller reporting company	☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes ☐ No ☒

The aggregate market value of the common stock held by non-affiliates of the registrant as of June 30, 2011 (based on the closing price of $9.21 per share) was $237,682,166.

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

As of March 2, 2012, there were 26,194,442 shares of the registrant's common stock, par value $0.01 per share, outstanding.

Documents incorporated by reference: Part III incorporates information by reference from the registrant's definitive proxy statement to be filed with the Securities and Exchange Commission pursuant to Regulation 14A under the Exchange Act within 120 days after the close of the registrant's fiscal year.

Table of Contents

ANNUAL REPORT ON FORM 10-K
FOR THE YEAR ENDED DECEMBER 31, 2011

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

Some statements in this Annual Report on Form 10-K for our fiscal year ended December 31, 2011 (this "Annual Report") are known as "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended (the "Securities Act"), and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). Forward-looking statements may relate to, among other things:

- future performance generally and our share price as a result thereof;
- restrictions imposed by the agreements governing our indebtedness;
- our ability to satisfy certain financial covenants included in the agreements governing our indebtedness;
- financing sources and availability, and future interest expense;
- our ability to refinance our indebtedness on commercially reasonable terms, if at all;
- anticipated business development activities and future capital expenditures;
- the effects of regulation, including restrictions and obligations imposed by federal and state regulators as a condition to the approval of the Merger (as defined herein) and the Plan (as defined herein);
- adverse changes in economic and industry conditions, and any resulting financial or operational impact, in the markets we serve;
- labor matters, including workforce levels, our recently announced workforce reduction and labor negotiations, and any resulting financial or operational impact;
- material technological developments and changes in the communications industry, including disruption of our third party suppliers' provisioning of critical products or services;
- change in preference and use by customers of alternative technologies;
- the effects of competition on our business and market share;
- risks related to our reported financial information and operating results including with respect to our adoption of fresh start accounting;
- changes in federal and state regulatory policies, procedures and mechanisms including but not limited to the availability and levels of regulatory support payments;
- availability of net operating loss ("NOL") carryforwards to offset anticipated tax liabilities;
- the impact of changes in assumptions on our ability to meet obligations to our Company-sponsored pension plans and post-retirement healthcare plans; and
- changes in accounting assumptions that regulatory agencies, including the Securities and Exchange Commission (the "SEC"), may require or that result from changes in the accounting rules or their application, which could result in an impact on earnings.

These forward-looking statements include, but are not limited to, statements about our plans, objectives, expectations and intentions and other statements contained in this Annual Report that are not historical facts. When used in this Annual Report, the words "expects," "anticipates," "intends," "plans," "believes," "seeks," "estimates" and similar expressions are generally intended to identify forward-looking statements. Because these forward-looking statements involve known and unknown risks and uncertainties, there are important factors that could cause actual results, events or developments to differ materially from those expressed or implied by these forward-looking statements, including our plans, objectives, expectations and intentions and other factors discussed under "Item 1A.

Risk Factors" and other parts of this Annual Report. You should not place undue reliance on such forward-looking statements, which are based on the information currently available to us and speak only as of the date on which this Annual Report was filed with the SEC. We undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. However, your attention is directed to any further disclosures made on related subjects in our periodic reports filed with the SEC on Forms 10-K, 10-Q and 8-K and Schedule 14A.

PART I

ITEM 1. BUSINESS

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

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

Our Business

We are a leading provider of communications services in rural and small urban communities, offering an array of services, including high speed data ("HSD"), Internet access, data transport, voice, video and other broadband enabled product offerings. We operate in 18 states with approximately 1.3 million access line equivalents (including voice access lines and HSD lines, which include digital subscriber lines ("DSL"), wireless broadband, cable modem and fiber-to-the-premises) in service as of December 31, 2011.

We were incorporated in Delaware in February 1991 for the purpose of acquiring and operating incumbent telephone companies in rural and small urban markets. Many of our telephone companies have served their respective communities for over 80 years.

Access lines have historically been an important element of our business. Over the past several years, communications companies, including FairPoint, have experienced a decline in access lines due to increased competition, including competition from Competitive Local Exchange Carriers ("CLECs"), wireless carriers and cable television operators, increased availability of alternative communications services, including wireless and voice over IP ("VoIP"), and challenging economic conditions. While voice access lines are expected to continue to decline, we expect to offset a portion of this lost revenue with growth in special access, HSD and other broadband service revenue as we continue to build out our network to customers who did not previously have access to such products and to offer more competitive services to existing customers. In addition, due to the issues associated with the cutover (the "Cutover") from the systems of Verizon in February 2009 with respect to our Northern New England operations and the filing for bankruptcy protection under chapter 11 of title 11 ("Chapter 11") of the United States Code (the "Bankruptcy Code") in October 2009, we lost significant market share in recent years. Our strategy is to leverage our ubiquitous network in our Northern New England operations to regain market share, particularly in the business and wholesale markets and for data services.

We offer our IP/Multiple Protocol Label Switched ("IP/MPLS") network that is fiber-optic based (the "Next Generation Network") to support more high-speed data services and extend fiber into more communities across our Northern New England operations. This fiber-optic build also supplies critical infrastructure known as "backhaul" for wireless traffic in the region, and addresses the increasing bandwidth needs being driven by new applications for smart phones, tablets and other wireless devices. Today we provide cellular backhaul connectivity to more than 1,600 towers in our Northern New England footprint. Recent Ethernet network expansion allows us to provide fiber based Ethernet cellular backhaul to more than half of these towers.

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

The Telecom Group and our Northern New England operations operate under different regulatory regimes in certain respects. For example, concerning interstate access, all of the Telecom Group's regulated interstate services of FairPoint were regulated under a rate-of-return model, while all of the rate-regulated interstate services provided by the Verizon Northern New England business were regulated under a price cap model. See "Item 1. Business – Regulatory Environment" for further information regarding rate-of-return and price cap models. On May 10, 2010, we received FCC approval to convert our Telecom Group operations in Maine and Vermont to the price cap model. These operations converted to price cap regulation on July 1, 2010. We have obtained permission to continue to operate our Telecom Group incumbent local exchange carriers ("ILECs") outside of Maine and Vermont under the rate-of-return or average schedule regime until the FCC completes its general review of whether to modify or eliminate the "all-or-nothing" rule. Without this permission, the all-or-nothing rule would require that all of our regulated operations be operated under the price cap model for federal regulatory purposes. In addition, while all of our operations generally are subject to obligations that apply to all local exchange carriers ("LECs"), our non-rural operations are subject to additional requirements concerning interconnection, non-discriminatory network access for competitive communications providers and other matters, subject to substantial oversight by state regulatory commissions. In addition, the FCC has ruled that our Northern New England operations must comply with the regulations applicable to the Bell Operating Companies. Our rural and non-rural operations are also subject to different regimes concerning universal service.

Overview of FCC Order to Reform Universal Service and Intercarrier Compensation

On October 27, 2011, the FCC adopted an Order and Further Notice of Proposed Rulemaking ("NPRM") on Universal Service and Intercarrier Compensation reform. On November 18, 2011, the FCC released its comprehensive and landmark order to modify the nationwide system of universal support and the Intercarrier Compensation system (referred to hereafter as the "FCC CAF/ICC Order"). In this order, the FCC replaced all existing Universal Support Funding ("USF") for price cap carriers with its Connect America Fund ("CAF"). The intent of the CAF is to bring high speed affordable broadband services to all Americans. The FCC CAF/ICC Order fundamentally reforms the Intercarrier Compensation ("ICC") system that governs how communications companies bill one another for handling traffic, gradually phasing down these charges. Together, the modifications to the CAF and ICC rules are intended to benefit consumers and promote the goals of the National Broadband Plan (the "NBP"), which called for overhauling these two complex systems to address the modern-day mission of supporting broadband deployment as cost-effectively as possible.

In conjunction with the FCC CAF/ICC Order, the FCC adopted a Notice of Proposed Rulemaking to deal with related matters, including but not limited to: (i) the actual cost model to be adopted for CAF Phase II funding, (ii) treatment of originating access charges, (iii) modifications to CAF for rate-of-return ILECs, (iv) development of CAF Phase II for mobility, (v) CAF Phase II reverse auction rules, (vi) remote areas funding and (vii) IP to IP interconnection issues. It is not known what decisions will be made on these issues nor how they may impact us. See "Item 1. Business – Regulatory Environment" for further information regarding these matters.

Emergence from Chapter 11 Proceedings

On October 26, 2009 (the "Petition Date"), we filed voluntary petitions for relief under Chapter 11 of the Bankruptcy Code in the United States Bankruptcy Court for the Southern District of New York (the "Bankruptcy Court") (Case No. 09-16335) (collectively, the "Chapter 11 Cases"). On January 24, 2011 (the "Effective Date"), we substantially consummated our reorganization through a series of transactions contemplated by our Third Amended Joint Plan of Reorganization Under Chapter 11 of the Bankruptcy Code (as confirmed by the Bankruptcy Court, the "Plan"). The Plan provided for, among other things: (i) the cancellation and extinguishment on the Effective Date of all our equity interests outstanding on or prior to the Effective Date, including but not limited to all outstanding shares of our common stock, par value $0.01 per share (the "Old Common Stock"), options and contractual or other rights to acquire any equity interests, (ii) the issuance of shares of our new common stock, par value $0.01 per share (the "New Common Stock" or "Common Stock"), and warrants to purchase shares of our new common stock to holders of certain claims in accordance with the Plan, (iii) the satisfaction of claims associated with the Credit Agreement, dated as of March 31, 2008, by and among FairPoint Communications, Spinco, Bank of America, N.A. as syndication agent, Morgan Stanley Senior Funding, Inc. and Deutsche Bank Securities Inc., as co-documentation agents, and Lehman Commercial Paper Inc., as administrative agent, and the lenders party thereto (as amended, supplemented or otherwise modified from time to time, the "Pre-Petition Credit Facility") and the indentures governing (a) the 13-1/8% Senior Notes due April 1, 2018 (the “Old Notes”), which were issued pursuant to the Indenture, dated as of March 31, 2008, by and between Spinco and U.S. Bank National Association, as amended, and (b) the 13-1/8% Senior Notes due April 2, 2018 (the “New Notes” and, together with the Old Notes, the “Pre-Petition Notes”) and (iv) the termination by its conversion into the revolving facility of the Credit Agreement (as defined below) of the Debtor-in-Possession Credit Agreement, dated as of October 27, 2009 (as amended, the “DIP Credit Agreement”), by and among FairPoint Communications and FairPoint Logistics, Inc. (“FairPoint Logistics”, and together with FairPoint Communications, the “DIP Borrowers”), certain financial institutions (the “DIP Lenders”) and Bank of America, N.A., as the administrative agent for the DIP Lenders (the “DIP Administrative Agent”). Our New Common Stock began trading on the Nasdaq Stock Market LLC (the “NASDAQ”) on January 25, 2011. In addition, on the Effective Date, FairPoint Communications and FairPoint Logistics (collectively, the “Borrowers”) entered into a $1,075.0 million senior secured credit facility with a syndicate of lenders and Bank of America, N.A., as the administrative agent for the lenders, arranged by Banc of America Securities LLC (the “Credit Agreement”). In connection with the Chapter 11 Cases, we also negotiated with representatives of the state regulatory authorities in Maine, New Hampshire and Vermont with respect to (i) certain regulatory approvals relating to the Chapter 11 Cases and the Plan and (ii) certain modifications to the requirements imposed by state regulatory authorities as a condition to approval of the Merger (each a “Merger Order,” and collectively, the “Merger Orders”). We agreed to regulatory settlements with the representatives for each of Maine, New Hampshire and Vermont regarding modification of each state’s Merger Order (each a “Regulatory Settlement,” and collectively, the “Regulatory Settlements”) which were then approved by the regulatory authorities in these states. For more information regarding the Regulatory Settlements, see “Item 1. Business – Regulatory Environment – State Regulation – Regulatory Conditions to the Merger, as Modified in Connection with the Plan.”

As of the Effective Date, we were required to adopt fresh start accounting in accordance with guidance under the applicable reorganization accounting rules, pursuant to which our reorganization value, which represented the fair value of the entity before considering liabilities, and approximates the amount a willing buyer would pay for the assets of the entity immediately after the reorganization, was allocated to the fair value of assets in conformity with guidance under the applicable accounting rules for business combinations, using the purchase method of accounting for business combinations. The amount remaining after allocation of the reorganization value to the fair value of identified tangible and intangible assets was reflected as goodwill, which is subject to periodic evaluation for impairment. In addition to fresh start accounting, our post-emergence consolidated financial statements reflect all effects of the transactions contemplated by the Plan. Therefore, our post-emergence consolidated statements of financial position and consolidated statements of operations are not comparable in many respects to our consolidated statements of financial position and consolidated statements of operations for periods prior to our adoption of fresh start accounting and prior to accounting for the effects of the reorganization, including the historical financial statements contained herein.

Our Services

We offer a broad portfolio of communications services for residential, business (includes governmental and educational institutions) and wholesale customers in each of the markets in which we operate. We have a long history of operating in our markets and have a recognized identity within each of our service areas. Our operating companies are locally staffed, which enables us to reliably provide an array of communications services to meet our customer needs. These include voice and voice related services, as well as HSD, Internet access, data transport, video and other broadband enabled services. Based on our understanding of our local customers’ needs, we offer bundled services designed to simplify the customer’s purchasing and management process.

Generation of Revenue

We primarily generate revenue through: (i) the provision of local voice service to customers within our service areas; (ii) the provision of network access through dedicated transport facilities for data and voice to business and wholesale customers and to interexchange carriers for origination and termination of interstate and intrastate long-distance phone calls; (iii) HSD services; (iv) Universal Service Fund high-cost loop and high-cost model payments; and (v) the provision of other services such as long-distance resale, other data and Internet and broadband enabled services, enhanced services and billing and collection services.

See “Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations” in this Annual Report for more information regarding our revenue sources.

Voice Services

Local calling service enables the local customer to originate and receive an unlimited number of calls within a defined "exchange" area. Local calling services include basic local lines, local private lines and switched data services. We provide local calling services to residential and business customers, generally for a fixed monthly charge and service charges for special calling features. In a LEC's territory, the amount that we can charge a customer for local service is determined by rate proceedings involving the appropriate state regulatory authorities.

We offer switched and dedicated long-distance services within our service areas through resale agreements with national interexchange carriers. In addition, through our wholly-owned subsidiary FairPoint Carrier Services, Inc., we offer wholesale long-distance services to communications providers that are not affiliated with us.

Network Access Charges / Intercarrier Compensation

Network Transport Services. We offer network transport services to wholesale customers for their use in connecting end users to the interexchange networks of the wholesale customer. These network transport services include special access services, which are primarily DS-1 and DS-3 services, and high speed digital services, which are primarily Ethernet-based services provisioned over fiber and copper facilities.

Network Switched Access Service. Network access enables long-distance companies to utilize our local network to originate or terminate intrastate and interstate communications. Network switched access charges relate to long-distance, or toll calls, that typically involve more than one company in the provision of telephone service as well as to the termination of interexchange private line services. Since toll calls and private line services are generally billed to the customer originating the call or ordering the private line service, a mechanism is required to compensate each company providing services relating to the service. This mechanism is the access charge and we bill access charges to long-distance companies and other customers for the use of our facilities to access the customer, as described below. Network switched access compensation is subject to the FCC CAF/ICC Order, as described below in "Item 1. Business – Regulatory Environment". Under the new rules, network switched access revenues are expected to continue to decline, but on a more predictable basis with fewer disputes.

Intrastate Access Charges. We generate intrastate access revenue when an intrastate long-distance call involving an interexchange carrier is originated by a customer in one of our exchanges to a customer in another exchange in the same state, or when such a call is terminated to a customer in one of our local exchanges. We also generate intrastate access revenue when an interexchange carrier orders special access to connect interexchange private line services, such as HSD services, to a customer in one of our local exchanges. The interexchange carrier pays us an intrastate access payment for either terminating or originating the communication. We bill access charges relating to such service through our carrier access billing system and receive the access payment from the interexchange carrier. Access charges for intrastate services are regulated and approved by the state regulatory authority.

Interstate Access Charges. We generate interstate access revenue when an interstate long-distance call is originated by a customer in one of our exchanges to a customer in another state, or when such a call is terminated to a customer in one of our exchanges. We also generate interstate access revenue when an interexchange carrier orders special access to connect interexchange private line services, such as HSD services, to a customer in one of our local exchanges. We bill interstate access charges in the same manner as we bill intrastate access charges; however, interstate access charges are regulated and approved by the FCC instead of the state regulatory authority.

Universal Service Fund High-Cost Loop. As described below in "Item 1. Business – Regulatory Environment", the Universal Service Funding mechanisms are being replaced, effective January 1, 2012, with Connect America Funding. Prior to 2012, the Universal Service Fund supplemented the amount of local service revenue received by us to ensure that basic local service rates for customers in high-cost areas are consistent with rates charged in lower cost areas. The Universal Service Fund and its successor, CAF, are funded by monthly fees charged to interexchange carriers and LECs. Until 2012, the Universal Service Fund made payments to us on a monthly basis based upon our cost support for LECs whose cost of providing the local loop connections to customers is significantly greater than the national average. For our rural service areas, these payments fluctuated based upon our average cost per loop compared to the national average cost per loop. For example, if the national average cost per loop increased and our operating costs (and average cost per loop) remained constant or decreased, the payments we received from the Universal Service Fund would decline. Conversely, if the national average cost per loop decreased and our operating costs (and average cost per loop) remained constant or increased, the payments we received from the Universal Service Fund would increase. For our non-rural service areas, these payments were based on cost models which estimate the cost to provide services and generate universal service support payments for high-cost areas. Universal Service Fund high-cost support revenue accounted for less than 2% of our total revenue in the year ended December 31, 2011. As described below in "Item 1. Business – Regulatory Environment", we expect 2012 CAF to be equivalent to our 2011 high-cost support. Starting in 2013, our CAF will depend on the resolution of the FCC's proceeding to adopt a CAF cost model and develop CAF Phase II for our operating areas and our right to accept or refuse that funding based on our evaluation of the cost of our obligations associated with the funding.

Data and Internet Services

We offer an extensive array of high capacity data services including: private line special access, fast packet, optical, Ethernet and IP services. We work with large businesses and carriers to deliver network capacity to meet their specific needs, including migrating networks from time division multiplexing to Ethernet-based high capacity circuits. In particular, wireless carriers are a high growth sector within our wholesale segment as they expand 3G networks and roll out 4G networks to meet the demand for broadband services driven by smartphones, tablets, mobile broadband and mobile video.

We offer broadband Internet access via DSL technology, fiber-to-the-home technology, dedicated T-1 connections, Internet dial-up, high speed cable modem and wireless broadband. Customers can utilize this access in combination with customer owned equipment and software to establish a presence on the World Wide Web. We offer enhanced Internet services, which include obtaining IP addresses, basic web site design and hosting, domain name services, content feeds and web-based e-mail services. We also offer carrier ethernet services throughout our market to our business and wholesale customers.

Other Services

We seek to capitalize on our LECs' local presence and network infrastructure by offering enhanced services to customers, as well as billing and collection services for interexchange carriers.

Billing and Collection. Many interexchange carriers provide long-distance services to our LEC customers and may elect to use our billing and collection services. Our LECs charge interexchange carriers a billing and collection fee for each call record generated by the interexchange carrier's customer.

Directory Services. Through our local telephone companies, we publish telephone directories in some of our locations. These directories provide white page listings, yellow page listings and community information listings. We contract with leading industry providers to assist in the sale of advertising and the compilation of information, as well as the production, publication and distribution of these directories.

Video. In certain of our markets, we offer video services to our customers by reselling DirectTV content and providing cable and IP television video-over-DSL.

Our Markets

Most of our 34 local exchange carriers operate as the ILEC in each of their respective markets. Approximately 63% of our voice access lines served residential customers as of December 31, 2011. Our business customers accounted for approximately 30% of our voice access lines as of December 31, 2011 and wholesale customers accounted for approximately 7% of our voice access lines as of December 31, 2011.

In addition to voice access lines, we offer HSD service to our customers. At December 31, 2011, we had 314,135 HSD subscribers. HSD subscribers include DSL, wireless broadband, cable modem and fiber-to-the-premises.

Our operations are primarily focused on rural and small urban markets and are geographically concentrated in the northeastern United States.

The following chart identifies the number of access line equivalents in each of our 18 states as of December 31, 2011:

State	Access Line Equivalents
Maine	480,559
New Hampshire	386,407
Vermont	274,958
Florida	49,087
New York	45,500
Washington	41,536
Missouri	13,476
Ohio	12,534
Virginia	8,436
Kansas	6,398
Illinois	5,769
Pennsylvania	5,757
Idaho	5,536
Oklahoma	4,160
Colorado	3,597
Other States(1)	3,184
Total:	1,346,894

(1) Includes Massachusetts, Georgia and Alabama.

Sales and Marketing

We have a customer-oriented marketing approach that emphasizes our reliable service and advanced network. Each of our local exchange companies has a long history in the communities it serves. It is our policy to maintain and enhance the strong brand recognition and reputation that each LEC enjoys in its markets, as we believe this is a significant competitive advantage. As we market new services, we will seek to continue to utilize our brand recognition in order to attain higher recognition with potential customers. We have approximately 3,500 employees that work and live in the markets where we provide service. VantagePoint℠ services, through our IP-based network in three contiguous states, has a level of coverage and capacity that we believe is unmatched in our marketplace. We have divided our Northern New England operations efforts into four distinct markets: residential, small and medium business, large business and wholesale. Marketing plans, distribution strategies, opportunities and tactics are tailored to each of these markets using call center or direct sales based approaches.

Our sales organization utilizes customer service representatives to service our residential customers. This includes all sales activities driven by our residential marketing programs. We utilize a combination of call center personnel and our direct sales force to sell to the small and medium segment and our other markets are handled by professional direct sales teams emphasizing account management and high touch customer service. Our direct sales personnel are assigned key customers, with large business and wholesale customers assigned a complete account team.

Information Technology and Support Systems

We have a customer-focused approach to information technology (“IT”) which allows for efficient business operations and supports revenue growth. Our approach is to simplify and standardize processes in order to optimize the benefits of our back-office and operation support systems. Specifically, our “simplify and optimize” initiative targets the reduction of redundant and manual processes to reduce cycle times, improve efficiency and deliver enhanced customer service.

Our back-office and operations support systems are a combination of integrated off-the-shelf packages that have been customized to support our operations as well as software as a service solution. Our Northern New England operations carrier access billing and our Telecom Group billing operations are supported by fully outsourced third-party platforms.

Our systems are supported by a combination of employees and contractors. Our internal IT group supports data center operations, data network operations, internal helpdesk, desktop support and phases of the systems development life cycle. We use professional services firms for the majority of software development and maintenance.

Network Architecture and Technology

Rapid and significant changes in technology are underway in the communications industry. Our success depends, in part, on our ability to anticipate and adapt to technological changes. With this in mind, we continue to build and expand our advanced Next Generation Network in our Northern New England operations. The Next Generation Network is an IP/MPLS network with over 14,800 miles of fiber optic cable. We believe this network architecture will enable us to efficiently respond to these technological changes.

Our LEC network consists of 95 host central offices and 417 remote central offices, all with advanced digital switches. Approximately 98.0% of our central offices are served by fiber optic facilities, which we own. The primary interconnection with other incumbent carriers is also fiber optic. Our outside plant consists of both fiber optic and copper distribution networks.

Our Telecom Group and Next Generation Networks transport systems are a combination of Synchronous Optical Network, Dense Wave Division Multiplexing, and Ethernet transport capable of satisfying customer demand for high bandwidth transport services. This system supports advanced services including Carrier Ethernet Services and legacy data products such as Frame Relay and Asynchronous Transfer Mode, facilitating delivery of advanced services as demand warrants.

In our LEC markets, DSL-enabled access technology has been deployed to provide significant broadband capacity to our customers. As of December 31, 2011, nearly all of our central offices are capable of providing broadband services through DSL technology, cable modem and/or wireless broadband.

Competition

We face intense competition from a variety of sources for our voice and data services in most of the areas we now serve, and expect that such competition will continue to intensify in the future. We face competition from many communications providers, including cable operators offering video, data and VoIP products, wireless carriers, long distance service providers, competitive local exchange carriers, Internet service providers, satellite companies and other wireline carriers. This competition has had an adverse impact on our access lines, HSD growth rates and revenues.

Regulations and technology change quickly in the communications industry, and these changes have historically had, and are expected to continue in the future to have, a significant impact on competitive dynamics. For instance, the ubiquity of wireless networks coupled with technology changes, such as VoIP, and data-driven devices (i.e. computer tablets and netbooks), are creating increased competition and technology substitution, a trend we expect will continue for the foreseeable future. Public monies in the form of stimulus funds to build broadband networks are also providing a new source of competition for us. In addition, many of our competitors have access to larger workforces or have substantially greater name-brand recognition and financial, technological and other resources than we do. Moreover, some of our competitors, including wireline, wireless and cable have formed and may continue to form strategic alliances to offer bundled services in our service areas.

We estimate that, as of December 31, 2011, most of the customers that we serve have access to voice, network transport and Internet services through a cable television company. In addition, increasingly, both CLECs and cable companies have begun to penetrate the market for high capacity circuits for large businesses and carriers, including interexchange and wireless providers. Lastly, in most of our service areas, we face competition from wireless carriers for voice services.

We use numerous strategies to offset these competitive pressures and changes in customer behavior. Our strategies are focused on maintaining connections with our customers through enhanced products and services and generating new revenues through new customer growth, win-backs of former customers and new product development. We offer attractive packages of value-added services that features HSD along with local, long distance calling, enhanced telephone features and video offerings.

For our business customers, we believe that the reliability and reach of our network is a competitive advantage particularly with regionally based enterprises in segments like health care and banking. Business customers seek reliable high capacity bandwidth services such as high-level transport services to wireless cell towers we provide in our territories. We are expanding the number and quality of people selling and servicing our enterprise customers with sophisticated products and services.

Employees

As of December 31, 2011, we employed a total of 3,541 employees, 2,254 of whom were covered by fourteen collective bargaining agreements. As of December 31, 2011, 72 of our employees were covered by four collective bargaining agreements that expire during the next calendar year.

Intellectual Property

We believe we own or have the right to use all of the intellectual property that is necessary for the operation of our business as we currently conduct it.

Regulatory Environment

We are subject to extensive federal, state and local regulation. At the federal level, the FCC generally exercises jurisdiction over facilities and services of common carriers, such as us, to the extent those facilities are used to provide, originate or terminate interstate or international communications. State regulatory commissions generally exercise jurisdiction over common carriers' facilities, services and rates to the extent those facilities are used to provide, originate or terminate intrastate communications. In addition, pursuant to local competition provisions of the Communications Act, as amended by the 1996 Act, state and federal regulators share responsibility for implementing and enforcing certain pro-competitive policies. In particular, state regulatory agencies exercise substantial oversight over the offerings of ILECs to competing carriers of interconnection and non-discriminatory access to certain facilities and services designated as essential for local competition.

Telecom Group and our Northern New England operations operate under different regulatory regimes in certain respects. For example, concerning interstate access, all of the Telecom Group regulated interstate services of FairPoint were regulated under a rate-of-return model, while all of the rate-regulated interstate services provided by the Verizon Northern New England business were regulated under a price cap model. On May 10, 2010, we received FCC approval to convert our Telecom Group operations in Maine and Vermont to the price cap model. Our Telecom Group operations in Maine and Vermont converted to price cap regulation on July 1, 2010. Under price cap regulation, limits are imposed on a company's interstate rates without regard to its costs or revenue requirements. These limits are adjusted annually based on FCC-specified formulae, such as for inflation, as well as through occasional regulatory proceedings, but will generally give a company flexibility to adjust its rates within these limits. In contrast, rate-of-return regulation permits a company to set rates based upon its allowed costs and projected revenue requirement, including an authorized rate-of-return determined by the FCC. We have obtained permission to continue to operate our Telecom Group ILECs outside of Maine and Vermont under the rate-of-return or average schedule regime until the FCC completes its general review of whether to modify or eliminate the "all-or-nothing" rule. Without this permission, the all-or-nothing rule would require that all of our regulated operations be operated under the price cap model for federal regulatory purposes. In addition, while all of our operations generally are subject to obligations that apply to all LECs, our non-rural operations are subject to additional requirements concerning interconnection, non-discriminatory network access for competitive communications providers and other matters, subject to substantial oversight by state regulatory commissions. In addition, the FCC has ruled that our Northern New England operations must comply with the regulations applicable to the Bell Operating Companies. Our rural and non-rural operations are also subject to different regimes concerning universal service.

As described in more detail below, the FCC CAF/ICC Order will modify regulation for us beginning January 1, 2012. Effective January 1, 2012, the FCC has eliminated the rural/non-rural distinction among ILECs and treats ILECs as either price cap or rate-of-return. Under the new rules, effective January 1, 2012, our ILECs will be treated as price cap companies for CAF purposes, including the Telecom Group rate-of-return companies. The Telecom Group rate-of-return companies will continue to be treated as rate-of-return for regulation of interstate switched and special access services. In addition, the FCC has preempted certain state regulation over our ILECs including capping all state originating and terminating switched access charges and reducing state switched access charges beginning July 1, 2012 in a two year transition to make state switched access charges equal to interstate switched access charges.

Federal Regulation

We are required to comply with the Communications Act which requires, among other things, that telecommunications carriers offer telecommunications services at just and reasonable rates and on terms and conditions that are not unreasonably discriminatory. The Communications Act, as amended by the 1996 Act, contains requirements intended to promote competition in the provision of local services and to lead to deregulation as markets become more competitive.

On March 16, 2010, the FCC submitted the NBP to the United States Congress ("Congress"). The NBP is a plan to bring high-speed Internet services to the entire country, including remote and high-cost areas. In accordance with the NBP, the FCC commenced several rulemakings that concern, among other things, reforming high-cost and low-income programs to promote universal service, to make those funds more efficient while promoting broadband communications in areas that otherwise would be unserved and to address changes to interstate access charges and other forms of intercarrier compensation. As described in more detail below, the FCC has issued a major order addressing universal service funding and intercarrier compensation and has announced its intentions to undertake other significant regulatory activity including the methodology for contributing to universal service funding. In addition, the FCC has a number of universal services and intercarrier compensation issues under consideration in a Further Notice of Proposed Rulemaking. We cannot predict the outcome of these proceedings or the effect the resulting decisions may have on our business.

Overview of FCC Order to Reform Universal Service and Intercarrier Compensation

On October 27, 2011, the FCC adopted an Order and Further Notice of Proposed Rulemaking on Universal Service and Intercarrier Compensation reform. On November 18, 2011, the FCC released the FCC CAF/ICC Order. In this order, the FCC replaced all existing USF for price cap carriers with its CAF. The intent of the CAF is to bring high speed affordable broadband services to all Americans. The FCC CAF/ICC Order fundamentally reforms the ICC system that governs how communications companies bill one another for handling traffic, gradually phasing down these charges. Together, the modifications to the CAF and ICC rules are intended to benefit consumers and promote the goals of the NBP, which called for overhauling these two complex systems to address the modern-day mission of supporting broadband deployment as cost-effectively as possible.

In conjunction with the FCC CAF/ICC Order, the FCC adopted a NPRM to deal with related matters, including but not limited to: (i) the actual cost model to be adopted for CAF Phase II funding, (ii) treatment of originating access charges, (iii) modifications to CAF for rate-of-return ILECs, (iv) development of CAF Phase II for Mobility, (v) CAF Phase II reverse auction rules, (vi) remote areas funding and (vii) IP to IP interconnection issues. It is not known what decisions will be made on these issues or how they may impact us.

FCC CAF Phase I Overview

Under the new rules adopted in the FCC CAF/ICC Order, all of our rural operations will be treated under the CAF rules for price cap carriers. Under those rules, all of our ILEC operations will receive CAF Phase I frozen support funding in 2012 that is equal to all forms of high cost universal service funding received during 2011. We may also be eligible in 2012 for the one-time CAF Phase I Incremental Support, which would include a portion of a nationwide funding pool in the amount of $300 million that is being made available to price cap ILECs based on a cost regression run of the High Cost Proxy Model used, through 2011, to establish High Cost Model Support for non-rural ILECs. It is not clear at this time how much, if any, of this funding will be made available to us, nor is it clear whether we will be able to accept any or all of the potential funding, given the restrictions placed on the CAF Phase I Incremental Support by the new rules adopted by the FCC. Various companies and industry associations are seeking reconsideration of the new CAF rules and it is not known whether the FCC will modify its rules or what impact any such modifications may have on us.

FCC CAF Phase II Overview

Under the new FCC rules, the FCC intends to adopt a new cost model during 2012 that will be used to establish Phase II CAF funding effective January 1, 2013. The nature and timing of the model adopted are subject to regulatory and legal processes and the exact nature of the model and the timing of its implementation are not known at this time. Under the new rules, the FCC intends to establish CAF funding for geographic areas defined by the Census Bureau that contain approximately 400 households (“Census Blocks”) that have no unsubsidized competition. In effect, we expect the FCC to identify specific Census Blocks in our operating territories, identify a five year funding commitment, identify specific service obligations, and offer the funding to us, as a price cap ILEC, on a “right of first refusal” basis. If we accept the funding we will be obligated to provide service to all customer locations in the specified Census Blocks by the end of the five years and offer broadband services with minimum speeds of 4 megabit per second (“MBPS”) service down (to the customer) and 1 MBPS service up (from the customer to the Internet). There will also be additional obligations, including but not limited to latency and rates. In the event we choose not to exercise our right of first refusal for CAF Phase II funding, the FCC intends to use reverse auctions to allow carriers to bid for the funding. At this point, the specific Census Blocks which will be included in CAF Phase II have not been identified, and the cost model has not been adopted. Accordingly, we do not know how much funding will be offered for each of our operations and we do not know whether we will accept funding for any or all of our operating areas. CAF Phase II funding will be offered based on all “study areas” in a state operation operated by each ILEC.

FCC New Rules for Intercarrier Compensation Overview

The FCC CAF/ICC Order establishes rules to reform historical rules associated with local, state toll and interstate toll traffic exchanged among communications carriers including ILECs, CLECs, cable companies, wireless carriers and VoIP providers. The new rules, the majority of which are effective beginning July 1, 2012, establish separate rules for price cap carriers and rate-of-return carriers. Although the FCC order treats our rate-of-return carriers (including companies operating under average schedules) as price cap carriers for CAF funding, it treats them as rate-of-return carriers for purposes of ICC reform. For both price cap and rate-of-return carriers the FCC establishes a multi-year transition of terminating traffic compensation to “bill and keep”, or zero compensation. For both price cap and rate-of-return carriers, the FCC requires carriers to establish fiscal year 2011 (“FY2011”) baseline compensation, which is the amount of relevant compensation billed during the period beginning October 1, 2010 and ending September 30, 2011, and collected by March 31, 2012. This FY2011 revenue is used as a starting point for revenue for the transitional period, which is six years for price cap operations and nine years for rate-of-return operations. For each operation, the FY2011 baseline revenue is reduced by a specified percent during each year of the transition, resulting in a target revenue for each tariff year. At the same time, the FCC rules require reductions in ICC rates for specified services and jurisdictions. As the recoverable revenue declines and the rates decline, any target revenue which will not be covered by ICC revenue can be recovered, in part, from end users through an access recovery charge (“ARC”). Price cap incumbent LECs are permitted to implement monthly end user ARCs with five annual increases of no more than $0.50 for residential/single-line business consumers, for a total monthly ARC of no more than $2.50 in the fifth year; and $1.00 (per month) per line for multi-line business customers, for a total of $5.00 per line in the fifth year, provided that: (1) any such residential increases would not result in regulated residential end-user rates that exceed the $30 residential rate ceiling; and (2) any multi-line business customer’s total subscriber line charge (“SLC”) plus ARC does not exceed $12.20. Rate-of-return incumbent LECs are permitted to implement monthly end user ARCs with six annual increases of no more than $0.50 (per month) for residential/single-line business consumers, for a total ARC of no more than $3.00 in the sixth year; and $1.00 (per month) per line for multi-line business customers for a total of $6.00 per line in the sixth year, provided that: (1) such increases would not result in regulated residential end-user rates that exceed the $30 Residential Rate Ceiling; and (2) any multi-line business customer’s total SLC plus ARC does not exceed $12.20. If the combination of ICC and ARC revenue is not sufficient to cover the targeted revenue, then additional funding will be provided by the CAF.

Interstate Access Charges

Our local exchange subsidiaries receive compensation from long-distance telecommunications providers for the use of their network to originate and terminate interstate inter-exchange traffic. With respect to interstate traffic, the FCC regulates the prices we may charge for this purpose, referred to as access charges, as a combination of flat monthly charges paid by end-users, usage-sensitive charges paid by long-distance carriers, and recurring monthly charges for use of dedicated facilities paid by long-distance carriers. The amount of access charge revenue that we will receive is subject to change. As previously described, the FCC has adopted a plan to resolve certain billing disputes related to intercarrier compensation and to transition all terminating state and interstate intercarrier compensation to zero over a six or nine year period for price cap and rate-of-return companies, respectively.

Our ILEC operations in Maine, New Hampshire and Vermont and, effective July 1, 2010, our Telecom Group operations in Maine and Vermont, are subject to price cap regulation of access charges. Under price cap regulation, limits are imposed on a company’s interstate rates without regard to its costs or revenue requirements. These limits are adjusted annually based on FCC-specified formulae, such as for inflation, as well as through occasional regulatory proceedings, but will generally give us flexibility to adjust our rates within these limits. In contrast, our rural operations are subject to interstate rate-of-return regulation, permitting us to set rates for those operations based upon our allowed costs and projected revenue requirement, including an authorized rate-of-return of 11.25%. In an order dated January 25, 2008, the FCC granted our request for a waiver of the “all or nothing” rule, which allows us to continue to operate under both of these regimes until the FCC completes its general review of whether to modify or eliminate the all or nothing rule, or makes other comprehensive changes to its access charge rules. As previously discussed, the state and interstate terminating switched access rates for our rate-of-return regulated ILECs are impacted by the FCC CAF/ICC Order, which establishes a transition of these rates to zero over nine years. During this transition these rates will no longer be based on costs but will be subject to a complex transition mechanism established by the FCC.

The FCC CAF/ICC Order significantly changes the existing rates for access charges, which, combined with the development of competition, have generally caused the aggregate amount of switched access charges paid by long-distance carriers to decrease over time. The FCC also is considering whether to modify price cap rules as they apply to special access and whether to restrict some of the pricing flexibility enjoyed by price cap ILECs, which includes some of our Northern New England operations. We cannot predict what changes, if any, the FCC may eventually adopt and the effect that any of these changes may have on our business.

Universal Service Support

Rules effective through December 31, 2011 provided different methodologies for the determination of universal service payments to rural and non-rural carriers. In general, the rules provide high-cost support to rural carriers where the company's actual costs exceed a nationwide benchmark level. High-cost support for non-rural carriers, on the other hand, was determined by a nationwide cost proxy model. Under the pre-2012 FCC rules, our non-rural operations received support under the non-rural model methodology in Maine and Vermont. The FCC's rules for support to high-cost areas served by non-rural LECs were remanded by the U.S. Court of Appeals for the Tenth Circuit, which had found that the FCC had not adequately justified these rules. In 2010, in response to the Tenth Circuit remand, the FCC issued an order which justified its prior conclusion. As previously described, the FCC has replaced all pre-2012 universal service programs with its new CAF programs.

Universal Service Fund disbursements were distributed only to carriers that are designated as "eligible telecommunications carriers" ("ETCs") by a state regulatory commission. All of our non-rural and rural LECs were designated as ETCs.

We also benefit indirectly from support to low-income users under the Lifeline and Linkup universal service programs. The FCC has asked the Federal-State Joint Board for Universal Service to recommend changes to these low-income programs to address, among other things, access to broadband and eligibility for support. On February 6, 2012, the FCC adopted and released an order reforming the Lifeline and Linkup low-income programs. Effective April 1, 2012, the Linkup program will be eliminated for all low-income subscribers except for Native Americans. Linkup is a program which pays 50% of the non-recurring charges, not to exceed $30.00, associated with establishment of local telecommunications service. Also effective April 1, 2012, there are major reforms to the Lifeline program. Prior to the changes, Lifeline credits were based on four tiers of support. The first three tiers of federal support will be replaced by a flat credit of $9.25 per month. The fourth tier, which relates to Native Americans, is unchanged. In addition, the FCC is establishing revised eligibility criteria effective April 1, 2012. The FCC order requires the Universal Service Administration Company ("USAC") to establish a national database by the end of 2013 which will be used to eliminate duplicate funding. The FCC Lifeline order establishes a limited trial to evaluate Lifeline support for broadband services. It is not known how these changes will impact us. The elimination of duplicate support could result in fewer customers choosing us for Lifeline service, with the potential that a portion of our Lifeline customers may prefer to use other carriers for this service.

Universal Service Contributions

Federal universal service programs are currently funded through a surcharge on interstate and international end-user telecommunications revenues. Declining long-distance revenues, the popularity of service bundles that include local and long-distance services, and the growth in size of the fund, due primarily to increased funding to competitive ETCs, all prompted the FCC to consider alternative means for collecting this funding. As an interim step, the FCC has ordered that providers of certain VoIP services must contribute to federal universal service funding. The FCC also increased the percentage of revenues subject to federal universal service contribution obligations that wireless providers may use as their methodology for funding universal service. One alternative under consideration would be to impose surcharges on telephone numbers or network connections instead of carrier revenues. Any further change in the current assessment mechanism could result in a change in the total contribution that LECs, wireless carriers or others must make and that would be collected from customers. We cannot predict whether the FCC or Congress will require modification to any of the universal contribution rules, or the ultimate impact that any such modification might have on us or our customers.

Local Service Competition

The 1996 Act provides, in general, for the removal of barriers to market entry in order to promote competition in the provision of local telecommunications and information services. As a result, competition in our local exchange service areas will continue to increase from CLECs, wireless providers, cable companies, Internet service providers, electric companies and other providers of network services. Many of these competitors have a significant market presence and brand recognition, which could lead to more competition and a greater challenge to our future revenue growth.

Under the 1996 Act, all LECs, including both ILECs and CLECs, are required to: (i) allow others to resell their services; (ii) ensure that customers can keep their telephone numbers when changing carriers, referred to as local number portability; (iii) ensure that competitors' customers can use the same number of digits when dialing and receive nondiscriminatory access to telephone numbers, operator service, directory assistance and directory listing; (iv) ensure competitive access to telephone poles, ducts, conduits and rights of way; and (v) compensate competitors for the cost of completing calls to competitors' customers from the other carrier's customers.

In addition to these obligations, ILECs are subject to additional requirements to: (i) interconnect their facilities and equipment with any requesting telecommunications carrier at any technically feasible point; (ii) unbundle and provide nondiscriminatory access to certain network elements, referred to as unbundled network elements ("UNEs"), including some types of local loops and transport facilities, at regulated rates and on nondiscriminatory terms and conditions, to competing carriers that would be "impaired" without them; (iii) offer their retail services for resale at wholesale rates; (iv) provide reasonable notice of changes in the information necessary for transmission and routing of services over the ILEC's facilities or in the information necessary for interoperability; and (v) provide, at rates, terms and conditions that are just, reasonable and nondiscriminatory, for the physical co-location of equipment necessary for interconnection or access to UNEs at the ILEC's premises. Competitors are required to compensate the ILEC for the cost of providing these services.

Our non-rural operations are subject to all of the above requirements. In addition, our non-rural operations are subject to additional unbundling obligations that apply only to Bell Operating Companies. In contrast to the unbundling obligations that apply generally to ILECs, these Bell Operating Company-specific requirements mandate access to certain facilities (such as certain types of local loops and inter-office transport, and local circuit switching) even where other carriers would not be "impaired" without them.

Our Telecom Group rural operations are exempt from the additional ILEC requirements until the applicable rural carrier receives a bona fide request for these additional services and the applicable state authority determines that the request is not unduly economically burdensome, is technically feasible and is consistent with the universal service objectives set forth in the 1996 Act. This exemption will be effective for all of the Telecom Group operations, except in Florida where the legislature has determined that all ILECs are required to provide the additional services as prescribed in the 1996 Act. If a request for any of these additional services is filed by a potential competitor with respect to one of our other existing rural operating territories, we will likely ask the relevant state regulatory commission to retain the exemption. If a state regulatory commission rescinds an exemption in whole or in part and does not allow us adequate compensation for the costs of providing the interconnection, our costs could increase significantly; we could face new competitors in that state; and we could suffer a significant loss of customers and incur a material adverse effect on our business, financial condition, results of operations and liquidity. In addition, we could incur additional administrative and regulatory expenses as a result of the interconnection requirements. Any of these could result in a material adverse effect on our business, financial condition, results of operations and liquidity.

Under the 1996 Act, rural LECs may request from state regulatory commissions suspension or modification of any or all of the requirements described above. A state regulatory commission may grant such a request if it determines that doing so is consistent with the public interest and is necessary to avoid a significant adverse economic impact on communications users, and where imposing the requirement would be technically infeasible or unduly economically burdensome. If a state regulatory commission denies all or a portion of a request made by one of our rural LECs, or does not allow us adequate compensation for the costs of providing interconnection, our costs could increase and our revenues could decline. In addition, with such a denial, competitors could enjoy benefits that would make their services more attractive than if they did not receive interconnection rights. With the exception of certain requests by us to modify the May 24, 2004 implementation date for local number portability in certain states, we have not encountered a need to file any requests for suspension or modification of the interconnection requirements.

Long-Distance Operations

The FCC has required that ILECs that provide interstate long-distance services originating from their local exchange service territories must do so in accordance with "non-structural separation" rules. These rules have required that our long-distance affiliates (i) maintain separate books of account, (ii) not own transmission or switching facilities jointly with the local exchange affiliate and (iii) acquire any services from their affiliated LEC at tariffed rates, terms and conditions. The Bell Operating Companies are subject to a different set of rules allowing them to offer both long-distance and local exchange services in the regions where they operate as Bell Operating Companies, subject to certain conditions with which we comply. In addition, our operations have been obligated under the FCC's "equal access" scripting requirement to read new customers a list of all available long-distance carriers presented in random order. Not all of our competitors must comply with these requirements. Therefore, these requirements may put us at a competitive disadvantage in the interstate long-distance market. The FCC recently ruled that the Bell Operating Companies need no longer comply with these rules for their long-distance services in order to avoid classification as a dominant carrier, and that their ILEC affiliates need no longer comply with the separation rules for their long-distance services, provided that they comply with certain existing and additional safeguards, such as providing special access performance metrics, offering low-volume calling plans and making available certain monthly usage information on customers' bills. The FCC also has ruled that the Bell Operating Companies and their ILEC affiliates are no longer required to comply with the equal access scripting requirement. However, until similar relief is granted in each state by the state public utility commission ("PUC"), we will continue to comply with the equal access scripting requirements.

Other Obligations under Federal Law

We are subject to a number of other statutory and regulatory obligations at the federal level. For example, the Communications Assistance for Law Enforcement Act ("CALEA"), requires telecommunications carriers to modify equipment, facilities and services to allow for authorized electronic surveillance based on either industry or FCC standards. Under CALEA and other federal laws, we may be required to provide law enforcement officials with call records, content or call identifying information, pursuant to an appropriate warrant or subpoena.

The FCC limits how carriers may use or disclose customer proprietary network information ("CPNI"), and specifies what carriers must do to safeguard CPNI provided to third parties. Congress has enacted, and state legislatures are considering, legislation to criminalize the unauthorized sale of call detail records and to further restrict the manner in which carriers make such information available.

In addition, if we seek in the future to acquire companies that hold FCC authorizations, in most instances we will be required to seek approval from the FCC prior to completing those acquisitions. The FCC has broad authority to condition, modify, cancel, terminate or revoke operating authority for failure to comply with applicable federal laws or rules, regulations and policies of the FCC. Fines or other penalties also may be imposed for such violations.

Broadband and Internet Regulation

The FCC has adopted a series of orders that recognize the competitive nature of certain services that utilize advanced technologies.

With respect to our local network facilities, the FCC has determined that certain unbundling requirements do not apply to certain fiber facilities such as certain types of loops and packet switches.

The FCC has ruled that dedicated broadband Internet access services offered by telephone companies (using DSL technology), cable operators, electric utilities and terrestrial wireless providers qualify as largely deregulated information services. LECs or their affiliates may offer the underlying broadband transmission services that are used as an input to dedicated broadband Internet access services through private carrier arrangements on negotiated commercial terms. The FCC order also allows rural rate-of-return carriers, including most of our Telecom Group operations, the option to continue providing DSL service as a common carrier (status quo) offering. The FCC also has concluded that broadband Internet access service providers must comply with CALEA. Despite the FCC's previous ruling that broadband Internet access is an information service, the FCC continues to evaluate this finding and is expected to issue a NPRM that could re-regulate broadband Internet access. We can provide no assurance about the outcome of such NPRM and how it may affect our business, financial condition, results of operations, liquidity and/or the market price of our Common Stock.

In addition, a Verizon petition asking the FCC to forbear from applying common carrier regulation to certain broadband services sold primarily to larger business customers was deemed granted by operation of law on March 19, 2006 when the FCC did not deny the petition by the statutory deadline. The U.S. Court of Appeals for the District of Columbia Circuit has rejected a challenge to that outcome. The forbearance deemed granted to Verizon has been extended to our Northern New England operations by the FCC in its order approving the Merger. In October 2007, the FCC stated its intention to define more precisely the scope of forbearance obtained by Verizon, but it has not yet done so. On October 4, 2011, tw telecom, Inc. filed a petition with the FCC asking it to reverse the forbearance granted to Verizon by operation of law on March 19, 2006. Comments have been filed in this proceeding by FairPoint and other parties. Following reply comments, the FCC may issue an order on this petition. We do not know how this would be resolved or the impact it may have on us if the FCC reversed, eliminated or modified the forbearance granted to Verizon in 2006.

The FCC has imposed particular regulatory obligations on IP-based telephony. It has concluded that interconnected VoIP providers must comply with CALEA; provide enhanced 911 emergency calling capabilities; comply with certain disability access requirements; comply with the FCC's rules protecting CPNI; provide local number portability; and pay regulatory fees. Recently there have also been discussions among policymakers concerning "net neutrality." The FCC released a statement of principles favoring customer choice of content and services available over broadband networks. It has adopted open Internet access rules applicable to all broadband Internet access providers. However, we cannot predict what impact, if any, this may have on our business, financial condition, results of operations, liquidity and/or the market price of our Common Stock. The FCC has preempted some state regulation of VoIP.

Additional rules and regulations may be extended to the Internet and to broadband Internet access. A variety of proposals are under consideration in both federal and state legislative and regulatory bodies. For example, the FCC is considering reclassifying the transport component of broadband service as a "telecommunications service." In addition, there has been increasing review to increase regulatory oversight of third party billing on telephone bills and for cyber security. We cannot predict whether the outcome of pending or future proceedings will prove beneficial or detrimental to our competitive position and our regulatory compliance costs.

On February 17, 2009, Congress enacted the American Recovery and Reinvestment Act of 2009 (the "Recovery Act") which, among other programs, provides for $7.2 billion for broadband development in unserved and underserved areas of the United States. We applied for stimulus funding under the Recovery Act, but did not receive any grant funding. However, there were several grants of stimulus funding under the Recovery Act in our Northern New England operating area and our other service areas and in particular for the overbuilding of our Next Generation Network. Networks built with these funds in such areas may provide competition for our products and services.

State Regulation

The local service rates and intrastate access charges of substantially all of our telephone subsidiaries are regulated by state regulatory commissions which typically have the power to grant and revoke authority for authorizing companies to provide communications services. In some states, our intrastate long-distance rates are also subject to state regulation. States typically regulate local service quality, billing practices and other aspects of our business as well. As described above, intrastate access charges are subject to the transition plan established by the FCC in its recent FCC CAF/ICC Order.

Most state commissions have traditionally regulated LEC pricing through cost-based rate-of-return regulation. In recent years, however, state legislatures and regulatory commissions in most of the states in which our telephone companies operate have either reduced the regulation of LECs or have announced their intention to do so, and we expect this trend will continue. Such relief may take the form of mandatory deregulation of particular services or rates; or it may consist of optional alternative forms of regulation ("AFOR"), which may involve price caps or other flexible pricing arrangements. Some of these deregulatory measures are described in greater detail below. We believe that some AFOR plans allow us to offer new and competitive services faster than under the traditional regulatory regimes.

The following summary addresses significant regulatory actions by regulatory agencies in Maine, New Hampshire and Vermont that have affected or are expected to affect our Northern New England operations:

Regulatory Conditions to the Merger, as Modified in Connection with the Plan

As required by the Plan as a condition precedent to the effectiveness of the Plan, we were required to obtain certain regulatory approvals, including approvals from the public utility commissions in Maine and New Hampshire and the Vermont Public Service Board (the "Vermont Board"). In connection with the Chapter 11 Cases, we negotiated with representatives of the state regulatory authorities in each of Maine, New Hampshire and Vermont with respect to (i) certain regulatory approvals relating to the Chapter 11 Cases and the Plan and (ii) the Merger Orders. We agreed to the Regulatory Settlements described below.

New Hampshire Regulatory Settlement

On July 7, 2010, the New Hampshire Public Utilities Commission ("NHPUC") provided its approvals for New Hampshire, including the Regulatory Settlement for New Hampshire (the "New Hampshire Regulatory Settlement"). The New Hampshire Regulatory Settlement provides for, among other things, the following:

Service Quality Requirements:

- We committed to meet the broadband build out and capital investment requirements and continue operating under the service quality index ("SQI") service quality program of the January 23, 2008 Settlement Agreement (the "NH 2008 Settlement") among Verizon, the Company and the staff of the NHPUC and Order No. 24,823 in Docket DT 07-011 (the "NH 2008 Order"), subject to certain modifications described in the New Hampshire Regulatory Settlement.

- In connection with the NHPUC Order No. 25,129 in Docket No. DT 10-025, final settlement of our SQI penalties for 2009 were deferred until our 2010 SQI results were approved by the NHPUC. The order identified five key performance metrics, and for each metric that we met in 2010, the 2009 penalties would be reduced by 20%. The 2010 SQI results indicated that we had met three of the five key metrics, reducing the 2009 penalties by 60%. In January of 2011, the NHPUC initiated an audit of our 2010 SQI plan. The audit was completed in the third quarter of 2011, and the results confirmed that we had met three of the five key metrics during 2010. The NHPUC staff agreed with this assessment and made a recommendation to the NHPUC that such assessment be accepted. The NHPUC approved this assessment in an order dated February 6, 2012.

Broadband Commitments:

- We agreed to adhere to the broadband coverage commitments prescribed in the NH 2008 Order; however, certain broadband build-out commitments with a deadline of April 1, 2010 were extended to December 31, 2010. We believe that we have fulfilled this broadband coverage commitment as of December 31, 2010.
- We confirmed our commitment to spend a total of at least $56.4 million on our New Hampshire broadband build-out by March 31, 2015 and we have spent $52.3 million as of December 31, 2011.
- We have the option to resell terrestrial (non-satellite) based service providers' broadband service offerings in order to fulfill our broadband build out and/or service requirements with respect to the last eight percent (8%) of our broadband availability requirements as contained within the NH 2008 Settlement, provided that the services meet or exceed all requirements of the NH 2008 Order, and the resold services are purchased through and serviced by us.
- Pricing restrictions regarding stand-alone DSL service terminated on April 1, 2011; provided, however, that we will continue to honor the "for life" pricing that Verizon had offered to certain customers. We believe that we are in compliance with this commitment.
- The first $500,000 of any penalty amounts resulting from any failure to meet broadband commitments will be paid to the New Hampshire Telecommunications Planning and Development Fund. Any penalties above $500,000 will be invested within three years of the date of the penalty as additional expenditures for our network, subject to NHPUC approval.

Expenditure Commitments:

- We reconfirmed our commitment to spend $285.4 million in capital expenditures through March 31, 2013, of which $273.5 million has been spent through December 31, 2011; provided, however, that the amounts expended toward the $56.4 million broadband commitment described above may be applied to the $285.4 million capital expenditure commitment.
- We agreed to reduce our $65.0 million "other expenditure" commitment by $10.0 million and reallocate the $10.0 million to recurring maintenance capital expenditures to be spent on or before March 31, 2013. This $10.0 million increases the $285.4 million capital expenditure commitment to $295.4 million.
- We may further reduce our $65.0 million "other expenditure" commitment by up to $10.5 million to the extent such amounts are needed and are actually expended beyond the original $56.4 million broadband commitment in order to achieve 95% broadband availability by March 31, 2013.
- We may further reduce our $65.0 million "other expenditure" commitment by $4.5 million of capital expenditures already expended in excess of amounts estimated to develop our Next Generation Network.
- We will have from April 1, 2010 to March 31, 2015 to meet whatever "other expenditure" commitment remains after the preceding reductions, which will be spent on "network enhancing activities."

Financial Commitments:

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

Management Commitments:

- Our board of directors is required to consist of a supermajority of newly appointed independent directors, and at least one member of the board of directors must reside in northern New England. We are in compliance with this obligation.
- Our board of directors is required to appoint a “regulatory sub-committee” that will monitor compliance with the terms of the NH 2008 Order, as modified by the New Hampshire Regulatory Settlement, and all other regulatory matters involving the States of Vermont, New Hampshire and Maine. We appointed a regulatory committee on the Effective Date.
- We are required to maintain a state president who will provide a senior regulatory presence in New Hampshire and is able to reasonably respond to various future Company-based NHPUC dockets or regulatory issues relating to telecommunications. We fulfilled this obligation in February of 2010.
- We agreed to seek to have a Chief Information Officer in place by June 30, 2010. We fulfilled this obligation in March of 2010.
- We agreed that any management bonuses and the FairPoint Communications, Inc. 2010 Success Bonus Plan (the “Success Bonus Plan”) would be based on a combination of EBITDAR (EBITDA plus restructuring costs) and service metrics goals and the weighting for each of these categories would be computed and clearly stated for the incentive and bonus plans for each individual and for the Company in total. We believe that we are in compliance with this commitment.

Other:

- We were required to reimburse the State of New Hampshire for certain costs and expenses. We fulfilled this obligation in January 2011.
- During the first two years following the Effective Date of the Plan, we are barred from paying dividends if we are in material breach of the New Hampshire Regulatory Settlement until we cure such breach.

Maine Regulatory Settlement

On July 6, 2010, the Maine Public Utilities Commission (the “MPUC”) provided its approvals for Maine, including of the Regulatory Settlement for Maine (the “Maine Regulatory Settlement”). The Maine Regulatory Settlement provides for, among other things, the following:

General:

- We agreed to comply with the MPUC’s February 1, 2008 Order issued in Docket Nos. 2007-67 and 2005-155, and all stipulations approved thereby (the “ME 2008 Merger Order”), including provisions regarding broadband build-out, capital investment, the SQI program and other provisions of the ME 2008 Merger Order, subject to certain modifications described in the Maine Regulatory Settlement.

Service Quality Requirements:

- We and the MPUC agreed to submit a joint consent order to the Bankruptcy Court which provided for the implementation of the SQI rebates for the 2008-2009 SQI year, starting with bills issued in March 2010. The Company issued the first nine months of credits through November 2010, at which time the remaining three months were combined with the credits to be issued for the 2009-2010 penalties and were issued over the period of December 2010 to November 2011.

Broadband Commitments:

- The deadline for the initial 83% broadband build-out requirement was extended from April 1, 2010 to December 31, 2010. We believe that we have fulfilled this broadband coverage commitment as of December 31, 2010. An additional interim requirement of 85% was established with a July 31, 2012 deadline, and the final requirement, with a March 31, 2013 deadline, was reduced from 90% to 87%. However, if we fail to meet any of these requirements, we shall be further required to achieve 90% by March 31, 2014. We further agreed that by March 31, 2013, we would achieve 82% for lines in UNE Zone 3. If we meet the 87% requirement by March 31, 2013, we will contribute $100,000 to the ConnectME Authority on July 1, 2013. We believe we have already met our obligation to achieve an 87% broadband build-out; however this has been the subject of a PUC proceeding and the decision in this proceeding has been appealed to the Maine Supreme Court.
- In meeting our broadband build-out requirements beyond 85%, we may resell the broadband service offerings of other non-satellite providers in order to meet our build-out and/or service requirements, provided that the services meet or exceed all requirements of the ME 2008 Merger Order, the resold services are purchased through and serviced by us, and the MPUC staff approves the provider(s).

Financial Commitments:

- The financial conditions in the ME 2008 Merger Order were replaced by the terms of the Maine Regulatory Settlement, which provided that such financial conditions were satisfied or were rendered moot by the debt reductions resulting from the Plan.

Management Commitments:

- Our board of directors is required to consist of a supermajority of newly appointed independent directors and at least one member of the board of directors must reside in northern New England. We are in compliance with this obligation.
- The board of directors is required to appoint a “regulatory sub-committee” that will monitor compliance with the terms of the ME 2008 Merger Order, as modified by the Maine Regulatory Settlement, and all other regulatory matters involving the States of Vermont, New Hampshire and Maine. We appointed a regulatory committee on the Effective Date.
- We agreed to seek to have a Chief Information Officer in place by June 30, 2010. We fulfilled this obligation in March of 2010.
- We agreed that any management bonuses and the Success Bonus Plan would be based on a combination of EBITDAR (EBITDA plus restructuring costs) and service metrics and the weighting for each of these categories would be computed and clearly stated for the incentive and bonus plans for each individual and for the Company in total, and that we would disclose such metrics to the MPUC and the Office of the Public Advocate of the State of Maine (the “Maine Public Advocate”). We believe that we are in compliance with this commitment.

Other:

- We were required to reimburse the MPUC and Maine Public Advocate for certain costs and expenses. We fulfilled this obligation in January 2011.

Vermont Regulatory Settlement

On December 23, 2010, the Vermont Board provided its approvals in Vermont, including the Regulatory Settlement for Vermont (the "Vermont Regulatory Settlement"). The Vermont Regulatory Settlement provides for, among other things, the following:

Service Quality Requirements:

- In general, all of the service quality programs contained in the January 8, 2008 settlement agreement among Verizon, the Company and the Department of Public Service ("DPS") (the "VT 2008 Settlement") and the February 15, 2008 Order RE: MODIFIED PROPOSAL IN Docket Number 7270 (the "VT 2008 Order") will remain in place subject to certain modifications described in the Vermont Regulatory Settlement.
- Final settlement of SQI penalties for 2008 and 2009 was deferred until our 2010 SQI results were approved by the Vermont Board. Ten performance metrics were identified, and for each metric that we met in 2010, the 2008 and 2009 penalties would be reduced by 10%. Our final 2010 SQI results in Vermont indicated that we had met nine of the ten service level requirements resulting in 90% of the deferred SQI penalties for 2008 and 2009 being waived. We requested that the remaining Amended Retail Service Quality Plan and performance assurance plan ("PAP") Mode of Entry penalties of $6.6 million be used to deploy broadband into unserved areas of Vermont. The Vermont Board has approved this request.

Broadband Commitments:

- We would undertake to deploy broadband services to 95% of all access lines in those exchanges that had been identified for 100% broadband availability in the VT 2008 Order (the "100% Exchanges") by June 30, 2011. We believe we met this obligation. With respect to the remaining 5% of lines in the 100% Exchanges, we will deploy broadband to any requesting customer using an extended service interval of 90 days from the date of the receipt of the order from the customer, provided such order was made no sooner than June 30, 2011. Failure to meet such requirements will require us to waive certain service charges.
- We also will request that the Vermont Board authorize us to use high-cost USF funds for three consecutive years to upgrade local loop plant and infrastructure in order to improve our service quality and network reliability. If the Vermont Board authorizes us to use the high-cost USF funds, and to the extent permitted by FCC rules, we may invest the high-cost USF funds in network infrastructure that will support the deployment of broadband services to an additional 5% of access lines on a timeline that varies depending on the date of the Vermont Board's authorization. This request is no longer applicable due to a similar provision included in a successor incentive regulation plan (the "2011 Incentive Regulation Plan") which is further described below.
- We will have the option to resell terrestrial (non-satellite) based service providers' broadband service offerings in order to fulfill our broadband build-out and/or service requirements as contained in the VT 2008 Order, provided that the services meet or exceed all requirements of the VT 2008 Order as modified by the Vermont Regulatory Settlement and the resold services are purchased through and serviced by us.
- Penalty amounts resulting from any failure to meet broadband deployment requirements will be managed by us with funds deposited into an escrow account with an escrow agent, which will reimburse us for costs incurred for additional network projects completed within 18 months of the date of the penalty, such projects subject to the approval of the DPS. We believe that we have completed the build-out obligation and are not subject to any penalties.

Capital Investment Commitments:

- We believe that we have met the capital commitment of the VT 2008 Order to invest $120 million by March 31, 2011.

Financial Commitments:

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

Management Commitments:

- Our board of directors is required to consist of a supermajority of newly appointed independent directors and at least one member of the board of directors must reside in northern New England. We are in compliance with this obligation.

- The board of directors is required to appoint a "regulatory sub-committee" that will monitor compliance with the terms of the VT 2008 Order, as modified by the Vermont Regulatory Settlement, and all other regulatory matters involving the States of Vermont, New Hampshire and Maine. We appointed a regulatory committee on the Effective Date.
- We are required to maintain a state president who will provide a senior regulatory presence in Vermont and be able to reasonably respond to various future Company-based dockets or regulatory issues relating to telecommunications. We fulfilled this obligation in January of 2010.
- We agreed to seek to have a Chief Information Officer in place by June 30, 2010. We fulfilled this obligation in March of 2010.
- We agreed that management bonuses and the Success Bonus Plan would be based on a combination of EBITDAR (EBITDA plus restructuring costs) and service metrics goals and the weighting for each of these categories would be computed and clearly stated for the incentive and bonus plans for each individual and for the Company in total. We believe that we are in compliance with this commitment.

Other:

- We were required to reimburse the State of Vermont for certain costs and expenses. We fulfilled this obligation in January 2011.
- During the first two years following the Effective Date of the Plan, we are barred from paying dividends if we are in material breach of the Vermont Regulatory Settlement until we cure such breach.
- On February 13, 2012, the VT Public Service Board approved our request to use $6.6 million of the Amended Retail Service Quality Plan and PAP Mode of Entry penalties to deploy broadband into unserved areas of Vermont. Approximately $5.3 million of this amount is associated with pre-bankruptcy claims and, therefore, is included in the Cash Claims Reserve.

Other State Regulatory Matters

Maine — Retail Regulation

Our Northern New England operations in Maine currently operate under an AFOR implemented upon consummation of the Merger. The AFOR provides for the capping of rates for basic local exchange services and allows pricing flexibility for other services, including intrastate long-distance, optional services and bundled packages. Under the terms of the ME 2008 Merger Order, among other things, we reduced the caps on monthly basic exchange rates effective as of August 1, 2008 by an amount designed to decrease revenues by approximately $1.5 million per month (depending on the applicable number of access lines). The current AFOR caps basic exchange rates in Maine at the new level for five years after August 1, 2008. The AFOR also includes an SQI requirement for our Northern New England operations in Maine, which establishes benchmarks for certain performance categories and imposes penalties for the failure to meet the benchmarks. Our Telecom Group operations in Maine converted to price cap regulation on July 1, 2010. All telephone companies in Maine were required to establish intrastate access rates which do not exceed their interstate access rates as they existed on January 1, 2003. Certain intrastate wholesale services are also subject to tariff requirements of the MPUC. In addition to the regulation of rates and service, telephone companies are generally subject to regulation by the MPUC in other areas, including transactions with affiliates, financing and reorganizations.

Maine — Unbundling of Network Elements

In orders issued in 2004 and 2005, the MPUC ruled that it had the authority under federal law to regulate compliance with certain conditions that our Northern New England operations must satisfy to sell long-distance services, and in particular to define the elements that our Northern New England operations must provide on a wholesale basis to competitive carriers under Section 271 of the Communications Act. The MPUC ruled that it had the authority to set rates for Section 271 elements and interpreted Section 271 to require our Northern New England operations to provide access to elements that the FCC had held are not required to be provided as UNEs under Section 251 of the Communications Act. Prior to the Merger, Verizon New England, Inc. ("Verizon New England") challenged the ruling in the U.S. District Court of Maine. Following an unfavorable ruling, Verizon New England appealed to the First Circuit Court of Appeals. The First Circuit vacated the District Court's decision and held that the MPUC has no such authority. The court remanded the matter for further proceedings by the District Court, which subsequently dismissed the case at our and the MPUC's request. On November 25, 2009, the MPUC petitioned the FCC for a declaratory ruling requiring us to provide certain UNEs, which is still pending.

New Hampshire

Our ILEC business operations in New Hampshire are subject to intrastate rate-of-return regulation. We have adopted the contractual and tariffed rates and terms and conditions that were in effect for the Verizon Northern New England business prior to the Merger. Within this regulatory structure, the NHPUC has instituted rules and policies to expedite offerings of new services, but we are subject to regulations, such as tariff filing and cost allocation requirements, that are not applicable to our competitors. In addition to our access tariff, we maintain two New Hampshire wholesale tariffs, one for interconnection, co-location and UNEs and another for services offered to carriers for resale. The order of the NHPUC approving the spin-off and the Merger includes conditions generally limiting rates for existing retail, wholesale and DSL services for up to five years following the closing of the Merger to those in effect as of the closing date of the Merger.

In a case similar to that of the MPUC described under "— Maine — Unbundling of Network Elements," the NHPUC had entered orders asserting authority under federal law to require the Verizon Northern New England business to continue offering certain network elements no longer required to be offered pursuant to Section 251 of the 1996 Act, and at existing total element long run incremental cost rates, until the NHPUC decided otherwise. Verizon Northern New England challenged the orders in the United States District Court for the District of New Hampshire and obtained an order enjoining the NHPUC from enforcing the orders. The recent First Circuit decision that considered the MPUC order also considered this New Hampshire decision and affirmed the District Court's opinion.

In 2008, the NHPUC issued an order determining that intra-LATA carrier common line switched access charges did not apply to certain interexchange calls where neither the calling nor the called party is served by our Northern New England operations. This decision was reversed by the New Hampshire Supreme Court on appeal. Following this decision, the NHPUC directed us to file tariff revisions to remove such charges prospectively and we objected to this requirement. The tariff revisions went into effect on January 21, 2012.

The New Hampshire legislature recently allowed a statutory exemption applicable to telecommunications providers from certain municipal property taxes to expire; as such our New Hampshire operations are now subject to the imposition of municipal property taxes on our utility telephone poles and conduit. Also, as a result of a recent court case, municipalities are now allowed to assess property taxes on the use of municipal rights of way. The Company estimates it will be billed approximately \$6.5 million for these taxes of which \$4.9 million was expensed for the nine months ended December 31, 2011. All of these municipal property tax bills may be reduced through abatement proceedings that we may initiate no later than March 1, 2012. At present, we cannot predict our total exposure based upon the abatement proceedings. During the fourth quarter of 2011, we made a tariff filing with the NHPUC requesting permission to levy a municipal property tax surcharge on certain retail and resold access lines in the amount not to exceed \$0.99 per line up to a total of 25 access lines per billing account number. The NHPUC issued an Order on December 28, 2011, granting our request to apply the surcharge on a temporary basis effective April 1, 2012, pending further regulatory proceedings to be undertaken during 2012.

Vermont

In Vermont, our Northern New England service territory operated under an alternative form of regulation since 2006 known as an Amended Incentive Regulation Plan. That plan expired on March 31, 2011. On March 23, 2011, we entered into a Memorandum of Understanding with the Vermont Department of Public Services whereby they agreed to seek approval of the 2011 Incentive Regulation Plan before the Vermont Public Service Board. The Board approved the 2011 Incentive Regulation Plan on January 18, 2012, and that plan is effective retroactively to April 1, 2011. We believe the 2011 Incentive Regulation Plan will decrease the scope of regulation for us, providing us with increased ability to compete in the Vermont telecommunications marketplace. Under the 2011 Incentive Regulation Plan, our exposure to annual retail service quality penalties has been decreased from \$10.5 million to \$1.65 million and we have pricing discretion with respect to existing and new services other than basic local exchange service.

Local Government Authorizations

We may be required to obtain from municipal authorities permits for street opening and construction or operating franchises to install and expand facilities in certain communities. If we enter into the video markets, municipal franchises may be required for us to operate as a cable television provider. Some of these franchises may require the payment of franchise fees. We have historically obtained municipal franchises as required. In some areas, we will not need to obtain permits or franchises because the subcontractors or electric utilities with which we will have contracts already possess the requisite authorizations to construct or expand our networks. In association with the Recovery Act, there may be an increase in our requirements associated with road move requests pursuant to new funding for roads. It is not certain whether funding will be available to us for this potential obligation.

Environmental Regulations

Like all other local telephone companies, our 34 LEC subsidiaries are subject to federal, state and local laws and regulations governing the use, storage, disposal of and exposure to hazardous materials, the release of pollutants into the environment and the remediation of contamination. As an owner of real property, we could be subject to environmental laws that impose liability for the entire cost of cleanup at contaminated sites, regardless of fault or the lawfulness of the activity that resulted in contamination. We believe, however, that our operations are in substantial compliance with applicable environmental laws and regulations.

Other Information

We make available free of charge on our website, www.fairpoint.com, our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and all amendments to such reports as soon as reasonably practical after we file such material with, or furnish such material to, the SEC. Our filings with the SEC are available to the public over the Internet at the SEC's website at *www.sec.gov*, or at the SEC's public reference room located at 100 F Street, N.E., Washington, DC 20549. Please call the SEC at 1-800-SEC-0330 for further information on the operation of the public reference room.

ITEM 1A. RISK FACTORS

Any of the following risks could materially adversely affect our business, consolidated financial condition, results of operations, liquidity and/or the market price of our Common Stock. The risks described below are not the only risks facing us. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial may also materially and adversely affect our business operations.

Risks Related to our Common Stock and Our Substantial Indebtedness

The price of our Common Stock may be volatile and may fluctuate substantially, which could negatively affect holders of our Common Stock.

The market price of our Common Stock may fluctuate widely as a result of various factors, including but not limited to, period-to-period fluctuations in our operating results, the volume of sales of our Common Stock, dilution, developments in the communications industry, the failure of securities analysts to cover our Common Stock, changes in financial estimates by securities analysts, short interest in our Common Stock, competitive factors, regulatory developments, economic and other external factors, general market conditions and market conditions affecting the stock of communications companies in general. 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 our 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, which could have a material adverse impact on our business, financial condition, results of operations, liquidity and/or the market price of our Common Stock.

In addition, shares of our Common Stock were listed on the NASDAQ effective as of January 25, 2011. There has been a public market for our Common Stock for only a short period of time. An active, liquid and orderly market for our Common Stock may not be sustained, which could depress the market price of our Common Stock. An inactive market may also impair our ability to raise capital.

We have substantial indebtedness which could have a negative impact on our financing options and liquidity position.

As of December 31, 2011, we had $1.0 billion of total debt outstanding (including approximately $3.9 million of capital leases). In addition, as of December 31, 2011, we had approximately $62.6 million, net of outstanding letters of credit, available for additional borrowing under our $75.0 million revolving loan facility (the "Revolving Facility").

Our overall indebtedness and the terms of our Credit Agreement could:

- require us to dedicate a significant portion of our cash flow from operations to paying the principal of and interest on our indebtedness, thereby limiting the availability of our cash flow to fund future capital expenditures, working capital and other corporate purposes;
- limit our ability to obtain additional financing in the future for working capital, capital expenditures or acquisitions;
- limit our ability to refinance our indebtedness on terms acceptable to us or at all;
- restrict us from making strategic acquisitions or cause us to make non-strategic divestitures;
- limit our flexibility in planning for, or reacting to, changes in our business and the communications industry generally;
- place us at a competitive disadvantage compared with competitors that have a less significant debt burden; and
- make us more vulnerable to economic downturns and limit our ability to withstand competitive pressures.

Our ability to continue to fund our debt requirements and to reduce debt may be affected by general economic, financial market, competitive, legislative and regulatory factors, among other things. An inability to fund our debt requirements, reduce debt or satisfy debt covenant requirements could have a material adverse effect on our business, financial condition, results of operations, liquidity and/or the market price of our Common Stock.

In addition, all of our indebtedness under the Credit Agreement bears interest at variable rates. If market interest rates increase, variable rate debt will create higher debt service requirements, which could adversely affect our cash flow. In addition, interest payments on the $1.0 billion term loan facility in our Credit Agreement (the "Term Loan") are subject to a British Bankers Association LIBOR rate ("LIBOR") floor of 2.00%. While LIBOR remains below 2.00% we will incur interest costs above market rates. While we may enter into agreements limiting our exposure to higher interest rates, these agreements may not offer complete protection from this risk.

We are a holding company and rely on dividends, interest and other payments, advances and transfers of funds from our operating subsidiaries and investments to meet our debt service and other obligations and to pay dividends, if any, on our Common Stock.

We are a holding company and conduct no operations. Accordingly, our cash flow and our ability to make payments on, or repay or refinance, our indebtedness and to fund planned capital expenditures and other cash needs will depend largely upon the cash flows of our operating subsidiaries and the payment of funds by those subsidiaries to us in the form of repayment of loans, dividends, management fees or otherwise. Distributions to us from our subsidiaries will depend on their respective operating results and will be subject to restrictions under, among other things,

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

Our subsidiaries have no obligation, contingent or otherwise, to make funds available, whether in the form of loans, dividends or other distributions, to us. Any inability to receive distributions from our subsidiaries could have a material adverse impact on our business, financial condition, results of operations, liquidity and/or the market price of our Common Stock.

To operate and expand our business, service our indebtedness and meet our other cash needs, we will require a significant amount of cash, which may not be available to us. We may not generate sufficient funds from operations to repay or refinance our indebtedness at maturity or otherwise or to fund our operations.

Our ability to make payments on, or repay or refinance, our indebtedness, to fund our operations and to fund planned capital expenditures, unanticipated capital expenditures and other cash needs will depend largely upon our future operating performance, including our ability to execute on our business plan. Our future operating performance, to a certain extent, is subject to general economic, financial, competitive, legislative, regulatory and other factors, such as any pension contributions required by the Employee Retirement Income Security Act of 1974 (“ERISA”), that are beyond our control. In addition, our ability to borrow funds in the future will depend on the satisfaction of the covenants in the agreements governing our indebtedness. Specifically, we will need to maintain specified financial ratios and satisfy financial condition tests. In addition, the limitations imposed by any financing arrangements on our ability to incur additional debt and to take other actions might significantly impair our ability to obtain other financing.

In addition, we can provide no assurance that we would be able to refinance any of our indebtedness on commercially reasonable terms, or at all. If we are unable to make payments on or refinance our debt or obtain new financing under these circumstances, we would have to consider other options, including:

- sales of assets;
- reduction or delay of capital expenditures, strategic acquisitions, investments and alliances; or
- negotiations with our lenders to restructure the applicable debt.

The agreements governing our indebtedness may restrict, or market or business conditions may limit, our ability to take some of these actions or the effectiveness of these actions.

An inability to generate sufficient funds from operations to repay or refinance our indebtedness at maturity or otherwise fund our operations could have a material adverse impact on our business, financial condition, results of operations, liquidity and/or the market price of our Common Stock.

Our financing arrangements subject us to various restrictions that could limit our operating flexibility, our ability to service our indebtedness and to fund dividends, if any, on our Common Stock.

The Credit Agreement contains restrictions, covenants and events of default that, among other things, require us to satisfy certain financial tests and maintain certain financial ratios and restrict our ability to incur additional indebtedness and to refinance our existing indebtedness. The terms of the Credit Agreement impose, and the agreements governing any future indebtedness may impose, various restrictions and covenants on us that could limit our ability to respond to market conditions, provide for capital investment needs or take advantage of business opportunities by limiting the amount of additional borrowings we may incur. These restrictions may include compliance with, or maintenance of, certain financial tests and ratios and may limit or prohibit our ability to, among other things:

- incur additional debt or issue preferred stock;
- pay dividends in the future or make other distributions on our stock or repurchase or redeem stock;
- create liens;

- redeem or prepay certain debt;
- make certain investments;
- engage in specified sales of assets;
- enter into transactions with affiliates;
- enter new lines of business;
- engage in consolidation, mergers and acquisitions; and
- make certain capital expenditures.

These restrictions on our ability to operate our business could seriously harm our business by, among other things, limiting our ability to take advantage of financing, merger and acquisition and other corporate opportunities.

Various risks, uncertainties and events beyond our control could affect our ability to comply with these covenants and maintain these financial tests and ratios. Failure to comply with any of the covenants in the Credit Agreement could result in a default thereunder. In addition, the limitations imposed by any financing arrangements on our ability to incur additional debt and to take other actions might significantly impair our ability to obtain other financing. Any of these events could have a material adverse impact on our business, financial condition, results of operations, liquidity and/or the market price of our Common Stock.

Limitations on our ability to use NOL carryforwards, and other factors requiring us to pay cash to satisfy our tax liabilities in future periods, may affect our ability to repay our indebtedness.

As of December 31, 2011, our NOLs have been substantially reduced by the recognition of gains on the discharge of certain debt pursuant to the Plan. In addition, our emergence from bankruptcy resulted in an ownership change for federal income tax purposes under Section 382 of the Internal Revenue Code of 1986, as amended (the "Code"). This followed previous ownership changes resulting from our initial public offering in February 2005 which resulted in an "ownership change" within the meaning of the U.S. federal income tax laws addressing NOL carryforwards, alternative minimum tax credits and other similar tax attributes. Moreover, the Merger with Spinco resulted in a further ownership change for these purposes. As a result of these ownership changes, there are specific limitations on our ability to use these NOL carryforwards and other tax attributes from periods prior to the initial public offering and the Merger. Although we do not expect that these limitations will materially affect our U.S. federal and state income tax liability in the near term, it is possible in the future if we were to generate taxable income in excess of the limitation on usage of NOL carryforwards that these limitations could limit our ability to utilize the carryforwards and, therefore, result in an increase in our U.S. federal and state income tax payments over the amount we otherwise would have, had we not experienced an ownership change. In addition, in the future we will be required to pay cash to satisfy our tax liabilities when all of our NOL carryforwards have been used or have expired. Limitations on our usage of NOL carryforwards, and other factors requiring us to pay cash taxes in the future, would reduce the funds available to fund our operations, make capital expenditures, service our indebtedness and pay dividends, if any, in the future, which could have a material adverse impact on our business, financial condition, results of operations, liquidity and/or the market price of our Common Stock.

Concentration of ownership among stockholders may prevent new investors from influencing significant corporate decisions.

Based on Schedules 13D and 13G filed by the respective holders, as of March 25, 2011, there are some institutional holders who own 5% or more of our outstanding Common Stock. As a result, these stockholders may be able to exercise significant control over all matters requiring stockholder approval, including the election of directors, amendment of our certificate of incorporation and approval of corporate transactions and could gain significant control over our management and policies as a result thereof.

Future sales or the possibility of future sales of a substantial amount of our Common Stock may depress the price of our Common Stock.

Future sales, or the availability for sale in the public market, of substantial amounts of our Common Stock could adversely affect the prevailing market price of our Common Stock, and could impair our ability to raise capital through future sales of equity securities. The market price of our Common Stock could decline as a result of sales of a large number of shares of our Common Stock in the market 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 us to obtain additional capital by selling equity securities in the future at a time and at a price that we deem appropriate.

As of March 2, 2012, we had 26,194,442 shares of Common Stock outstanding. All such shares are freely tradable except for any shares of our Common Stock that may be held or acquired by our directors, executive officers, employee insiders and other affiliates, as that term is defined in the Securities Act, which will be restricted securities under the Securities Act. Restricted securities may not be sold in the public market unless the sale is registered under the Securities Act or an exemption from registration is available. In addition, Angelo Gordon & Co., L.P. ("Angelo Gordon") and entities advised by Angelo Gordon have certain registration rights with respect to the Common Stock they hold or may acquire in the future.

We may issue shares of our Common Stock, or other securities, from time to time as consideration for future acquisitions and investments. In the event any such acquisition or investment is significant, the number of shares of our Common Stock, or the number or aggregate principal amount, as the case may be, of other securities that we may issue may in turn be significant. We may also grant registration rights covering these shares or other securities in connection with any such acquisitions and investments.

We do not expect to pay any cash dividends for the foreseeable future.

We do not anticipate that we will pay any cash dividends on shares of our Common Stock for the foreseeable future. Because we are a holding company, our ability to pay dividends depends on our receipt of dividends from our operating subsidiaries. Any determination to pay dividends in the future will be at the discretion of our board of directors and will depend upon limitations imposed by orders of state regulatory authorities, results of operations, financial condition, contractual restrictions contained in the agreements governing our Credit Agreement or indebtedness we may incur in the future, restrictions imposed by applicable law and other factors our board of directors may then deem relevant.

Our actual financial results and financial condition are likely to vary significantly from the projections and other financial information provided to the Bankruptcy Court and investors should not rely on such information in making investment decisions.

In connection with the Chapter 11 Cases, we filed with the Bankruptcy Court a disclosure statement containing financial projections and other financial information to demonstrate the feasibility of the Plan and our ability to continue operations upon emergence from Chapter 11 bankruptcy protection. The projections and other financial information provided were based on information available to us and assumptions known to us as of March 2010, however, certain projected financial information was revised in connection with a subsequent review of our financial forecast in December 2010. Projections are inherently subject to uncertainties and risks and our actual results and financial condition have varied from those contemplated by the projections and other financial information provided to the Bankruptcy Court and these variations may be material. We believe that because such projections and other financial information are now out of date and because of developments with respect to our business since the information was prepared, investors should not rely on them in making investment decisions.

Our actual operating results may differ significantly from our guidance.

From time to time, we have released and may continue to release guidance regarding our future performance that represents our management's estimates as of the date of release. This guidance, which consists of forward-looking statements, is prepared by our management and is qualified by, and subject to, the assumptions and the other information contained or referred to in the release. Our guidance is not prepared with a view toward compliance with the published guidelines of the American Institute of Certified Public Accountants, and neither our independent registered public accounting firm nor any other independent expert or outside party compiles or examines the guidance and, accordingly, no such person expresses any opinion or any other form of assurance with respect thereto.

Guidance is based upon a number of assumptions and estimates that, while presented with numerical specificity, are inherently subject to significant business, economic and competitive uncertainties and contingencies, many of which are beyond our control and are based upon specific assumptions with respect to future business decisions, some of which will change. We generally state possible outcomes as high and low ranges which are intended to provide a sensitivity analysis as variables are changed but are not intended to represent our actual results which could fall outside of the suggested ranges. The principal reason that we release this data is to provide a basis for our management to discuss our business outlook with analysts and investors. Notwithstanding this, we do not accept any responsibility for any projections or reports published by any such outside analysts or investors.

Guidance is necessarily speculative in nature, and it can be expected that some or all of the assumptions or the guidance furnished by us will not materialize or will vary significantly from actual results. Accordingly, our guidance is only an estimate of what management believes is realizable as of the date of release. Actual results may vary from the guidance and the variations may be material. Investors should also recognize that the reliability of any forecasted financial data diminishes the farther in the future that the data is forecast. In light of the foregoing, investors are urged to put the guidance in context and not to place undue reliance on it.

Any inability to successfully implement our operating strategy or the occurrence of any of the events or circumstances discussed therein could result in the actual operating results being different than the guidance, and such differences may be materially adverse.

Because our post-emergence consolidated financial statements reflect fresh start accounting adjustments made upon emergence from bankruptcy, and because of the effects of the transactions that became effective pursuant to the Plan, financial information in our post-emergence financial statements will not be comparable to our financial information from prior periods, including certain statements contained herein.

Upon our emergence from Chapter 11 protection on January 24, 2011, we adopted fresh start accounting in accordance with guidance under the applicable reorganization accounting rules, pursuant to which our reorganization value, which represents the fair value of the entity before considering liabilities and approximates the amount a willing buyer would pay for the assets of the entity immediately after the reorganization, has been allocated to the fair value of assets in conformity with guidance under the applicable accounting rules for business combinations, using the purchase method of accounting for business combinations. The amount remaining after allocation of the reorganization value to the fair value of identified tangible and intangible assets was reflected as goodwill, which is subject to periodic evaluation for impairment. In addition to fresh start accounting, our post-emergence consolidated financial statements reflect all effects of the transactions contemplated by the Plan. Therefore, our post-emergence consolidated statements of financial position and consolidated statements of operations are not comparable in many respects to our consolidated statements of financial position and consolidated statements of operations for periods prior to our adoption of fresh start accounting and prior to accounting for the effects of the reorganization, including the financial statements contained herein.

In addition, as the Chapter 11 Cases remained open, our consolidated balance sheet upon our emergence from Chapter 11 included accruals for unresolved claims related to the Chapter 11 Cases. These accruals were based on management's best estimate of future settlements of such unresolved claims and are subject to adjustment subsequent to the Effective Date. To the extent that our negotiations result in favorable or unfavorable settlements in relation to the amount accrued, we recognize gains and/or losses in our consolidated statement of operations subsequent to the Effective Date.

Risks Related to Our Business

We provide services to customers over access lines, and if we lose access lines, our business, financial condition, results of operations, liquidity and/or the market price of our Common Stock may be materially adversely affected.

We generate revenue primarily by delivering voice and data services over access lines. During the years ended December 31, 2011 and 2010, respectively, we experienced access line equivalent loss of 5.0% and 8.3%. These losses resulted mainly from competition, including competition from bundled offerings by cable companies, the use of alternate technologies as well as challenging economic conditions and the offering of DSL services, which prompts some customers to cancel second line service. We believe that the Chapter 11 Cases and certain issues associated with the Cutover have had and may continue to have an adverse effect on our ability to retain customers.

We expect to continue to experience net access line losses. Our inability to retain access lines could adversely affect our business, financial condition, results of operations, liquidity and/or the market price of our Common Stock.

We provide access services to other communications companies, and if these companies were to find alternative means of providing services, become insolvent or experience substantial financial difficulties, our business, financial condition, results of operations, liquidity and/or the market price of our Common Stock may be materially adversely affected.

We originate and terminate calls on behalf of long-distance carriers and other interexchange carriers over our network in exchange for access charges. Interstate and intrastate access charges represented approximately 35.9% of our total revenues in 2011. Should one or more of these carriers find alternative means of providing services, loss of revenues from these carriers could have a material adverse impact on our business, financial condition, results of operations, liquidity and/or the market price of our Common Stock. In addition, should one or more of the carriers that we do business with become insolvent or experience substantial financial difficulties, our inability to timely collect access charges from them could have a material adverse impact on our business, financial condition, results of operations, liquidity and/or the market price of our Common Stock.

We are subject to competition that may materially adversely impact our business, financial condition, results of operations, liquidity and/or the market price of our Common Stock.

We face intense competition from a variety of sources for our voice and Internet services in most of the areas we now serve. Regulations and technology 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 our services areas, we face competition from wireless carriers for voice services. As technology and economies of scale have improved, competition from wireless carriers has increased and is expected to further increase. We also face increasing competition from wireline and cable television companies for our voice and Internet services. We estimate that as of December 31, 2011, most of the customers that we serve had access to voice and Internet services through a cable television company. Wireline and cable television companies have the ability to bundle their services, which has and is expected to continue to intensify the competition we face from these providers. VoIP providers, Internet service providers and satellite companies also compete with our services, and such competition has increased and is expected to continue to increase in the future. In addition, many of our competitors have access to a larger workforce and have substantially greater name-brand recognition and financial, technological and other resources than we do.

In addition, consolidation and strategic alliances within the communications industry or the development of new technologies have had and may continue to have an effect on our competitive position. We 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 our business, financial condition, results of operations, liquidity and/or the market price of our Common Stock.

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

- loss of customers (given the likelihood that when we lose customers for local service, we will also lose them for all related services);
- reduced network usage by existing customers who may use alternative providers for voice 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.

We 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 new service introductions occur frequently in the communications industry and industry standards evolve continually, including but not limited to a transition in the industry from primarily voice products to data services. We cannot predict the effect of these changes on our competitive position, profitability or industry. Technological developments may reduce the competitiveness of our 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 our services. If we fail to adapt successfully to technological changes or obsolescence or fail to obtain access to important new technologies, we could lose customers and be limited in our ability to attract new customers and sell new services to our existing customers, which could have a material adverse impact on our business, financial condition, results of operations, liquidity and/or the market price of our Common Stock.

The geographic concentration of our operations in Maine, New Hampshire and Vermont make our business susceptible to local economic and regulatory conditions and consumer trends, and an economic downturn, recession or unfavorable regulatory action in any of those states may materially adversely affect our business, financial condition, results of operations, liquidity and/or the market price of our Common Stock.

As of December 31, 2011, we operate in 18 states with approximately 1.3 million access line equivalents, of which approximately 85% are located in Maine, New Hampshire and Vermont. As a result of this geographic concentration, our financial results will depend significantly upon economic conditions and consumer trends in these markets. From January 1, 2011 through December 31, 2011, our Northern New England operations experienced a 5.3% decline in total access line equivalents in service, compared to a decline of 3.5% for the Telecom Group during the same period. A deterioration in economic conditions in any of these markets could result in a further decrease in demand for our services and resulting loss of access line equivalents which could have a material adverse effect on our business, financial condition, results of operations, liquidity and/or the market price of our Common Stock.

In addition, if state regulators in Maine, New Hampshire or Vermont were to take an action that is adverse to our operations in those states, we could suffer greater harm from that action by state regulators than we would from action in other states because of the concentration of our operations in those states.

We depend on third party providers for certain of our billing functions, information technology services, including network support and improvements, and for the provision of our long-distance and bandwidth services.

We have agreements with outside service providers to perform a portion of our billing functions and for our provision of long-distance and bandwidth services. We also rely on certain third parties for information technology services, including network support and improvements.

If these service providers are unable to adequately perform such services or if one of them experiences a significant degradation or failure with respect to such services, it could result in disruptions in our billing, information technology systems and/or our long-distance and bandwidth services. Furthermore, if these agreements are terminated for any reason, we may be unable to find an alternative service provider in a timely manner or on terms acceptable to us, and may be unable ourselves to perform the services they provide.

With respect to the agreements governing our long-distance and bandwidth services, these agreements are based, in part, on our estimate of future supply and demand and may contain minimum volume commitments. If we overestimate demand, we may be forced to pay for services we do not need. If we underestimate demand, we 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, we will not be able to meet this demand. In addition, if we cannot meet any minimum volume commitments, we may be subject to underutilization charges, termination charges, or rate increases.

If any of the foregoing events occurs with respect to our third-party providers, our business, financial condition, results of operations, liquidity and/or the market price of our Common Stock could be materially adversely affected.

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

To be successful, we will need to continue to provide our customers reliable service over our expanded network. Some of the risks to our network and infrastructure include:

- physical damage to access lines;
- widespread power surges or outages;
- software defects in critical systems;

- disruptions beyond our control; and
- capacity limitations resulting from changes in our customers' usage patterns.

From time to time, in the ordinary course of business, we have experienced and in the future may experience short disruptions in our service due to factors such as cable damage, inclement weather and service failures of our third-party service providers. We could experience more significant disruptions in the future. In addition, certain portions of our network may lack adequate redundancy to allow for expedient recovery of service to affected customers. Disruptions may cause interruptions in service or reduced capacity for customers, either of which could cause us to lose customers and incur expenses, which could have a material adverse impact on our business, financial condition, results of operations, liquidity and/or the market price of our Common Stock.

A cyber-attack that bypasses our IT security systems causing an IT security breach may lead to theft of customer data, unauthorized use or publication of our intellectual property and/or confidential business information and could harm our competitive position or otherwise adversely affect our business.

Attempts by others to gain unauthorized access to organizations' IT systems are becoming more sophisticated and are sometimes successful. These attempts include covertly introducing malware to companies' computers and networks and impersonating authorized users, among others. We seek to detect and investigate all security incidents and to prevent their recurrence, but in some cases, we might be unaware of an incident or its magnitude and effects. The theft, unauthorized use or publication of our intellectual property and/or confidential business information could harm our competitive position, reduce the value of our investment in research and development and other strategic initiatives or otherwise adversely affect our business. To the extent that any security breach results in inappropriate disclosure of our customers' or licensees' confidential information, we may incur liability as a result.

Our success will depend on our ability to attract and retain qualified management and other personnel.

Our success depends upon the talents and efforts of our senior management team. The loss of any member of our 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 our business, financial condition, results of operations, liquidity and/or the market price of our Common Stock.

Our ability to successfully manage reductions in our workforce could have a material adverse impact on our results of operations.

We recently announced a workforce reduction and will continue to evaluate the need for additional reductions in the future. Reductions in our workforce could adversely impact our ability to operate effectively and, therefore, could adversely impact our customer service, result in higher regulatory penalties and/or reduce our ability to achieve our operational goals.

A significant portion of our workforce is represented by labor unions and therefore subject to collective bargaining agreements. If disputes arise, or if we are unable to successfully renegotiate these agreements at an appropriate time, workers subject to these agreements could engage in strikes or other work stoppages or slowdowns, which could materially adversely impact our business, financial condition, results of operations, liquidity and/or the market price of our Common Stock.

As of December 31, 2011, 2,254 of our 3,541 employees were covered by fourteen collective bargaining agreements. Disputes with regard to the terms of these agreements or our potential inability to negotiate acceptable contracts with these unions in the future as our current contracts expire could result in, among other things, strikes, work stoppages or other slowdowns by the affected workers. If unionized workers were to engage in a strike, work stoppage or other slowdown, or other employees were to become unionized, we could experience a significant disruption of our operations or higher ongoing labor costs, either of which could have a material adverse effect on our business, financial condition, results of operations, liquidity and/or the market price of our Common Stock. Additionally, future renegotiation of labor agreements or provisions of labor agreements could adversely impact our service reliability and significantly increase our costs for healthcare, wages and other benefits, which could have a material adverse impact on our business, financial condition, results of operations, liquidity and/or the market price of our Common Stock.

We have identified a material weakness in our internal controls over financial reporting which existed as of December 31, 2011. If the steps we take to remedy this material weakness are not successful or we otherwise fail to maintain an effective system of internal controls, such a failure could result in additional material misstatements in our financial statements, prevent us from providing timely financial statements or prevent us from meeting our reporting requirements both with the SEC and under our debt obligations, cause investors to lose confidence in our reported financial information and have a negative effect on the market price of our Common Stock.

As discussed in "Part II – Item 9A. Controls and Procedures," we concluded that the following material weakness in our internal controls over financial reporting which was previously identified in our 2010 Annual Report on Form 10-K and our quarterly reports on Form 10-Q for the quarters ending March 31, 2011, June 30, 2011 and September 30, 2011 continues to exist as of December 31, 2011:

- Procedures for the review of our income tax provision and supporting schedules were not adequate to identify and correct errors in a timely manner.

As a result of this material weakness, our management concluded that our disclosure controls were not effective as of December 31, 2011. Our management has initiated steps to remediate this issue. If the remediation is not successful or we otherwise fail to maintain an effective system of internal controls, such a failure could result in material misstatements in our financial statements, prevent us from providing timely financial statements or prevent us from meeting our reporting requirements both with the SEC and under our debt obligations, cause investors to lose confidence in our reported financial information and have a negative impact on the market price of our Common Stock.

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

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

We note that we have identified a material weakness in our internal controls over financial reporting which existed as of December 31, 2011 and had previously identified certain other material weaknesses in our internal controls over financial reporting which existed as of December 31, 2010 and for the quarters ending March 31, 2011, June 30, 2011 and September 30, 2011, which material weaknesses are discussed in greater detail in "Item 9A. Controls and Procedures".

Our required pension contributions and estimated future pension and post-retirement benefit plan liabilities may be impacted by several factors and an increase in our required contributions could have a material adverse impact on our business, financial condition, results of operations, liquidity and/or the market price of our Common Stock.

We sponsor qualified pension and post-retirement medical and dental plans for certain employees which require significant amounts of cash to maintain. The accrual of future benefits by employees and retirees in these qualified pension plans that are not covered by a collective bargaining agreement have been frozen. However, under the terms of our qualified pension plans for participants and retirees covered by a collective bargaining agreement, contractual increases in benefits will continue each year through 2014, at which time the collective bargaining agreements will terminate and be renegotiated. Future increases in benefits earned by participants and retirees in these plans will require increasing amounts of cash to maintain and may limit our operational flexibility. These future cash requirements could have a material adverse impact on our business, financial condition, results of operations, liquidity and/or the market price of our Common Stock.

Our qualified pension plans have funding requirements as defined under ERISA. These required pension contributions may be impacted by several factors, including fluctuations in the discount rate used to calculate the funding target, the performance of our pension asset portfolio, the number of retirees who elect to receive lump sum distributions and the demographics of plan participants. Fluctuations or adverse changes in any of these factors are beyond our control and may diminish the funded status of our pension plans thereby significantly increasing the contributions we are required to make under ERISA. For example, economic factors have led to a significant decrease in our discount rate for our pension plans and certain workforce reductions have resulted in a large amount of lump-sum payments being made to participants in 2011. These factors will increase our future contributions to the pension plans. The extent of such increases in our required contributions could have a material adverse impact on our business, financial condition, results of operations, liquidity and/or the market price of our Common Stock.

During the year ended December 31, 2011, we experienced actual gains on pension plan assets totaling approximately 1.6%. The actuarially-determined funded status of our pension plans is dependent on the market value of the assets held by each plan. As such, a significant decline in the market value of the pension plans' assets could result in us having to make additional contributions to these plans. Furthermore, if the third party trustee who holds these plan assets were to become insolvent, access to the plan assets could be limited and we could be required to pay lump-sum payments and benefits from our assets. Such required contributions and other payments could have a material adverse impact on our business, financial condition, results of operations, liquidity and/or the market price of our Common Stock.

Our long-lived assets may become impaired in the future.

Upon our adoption of fresh start accounting, we recorded our property, plant and equipment at fair value and we recorded amortizable intangible assets of $99.4 million and a non-amortizable intangible asset of $58.0 million. Amortizable long-lived assets must be reviewed for impairment whenever indicators of impairment exist. Non-amortizable long-lived assets are required to be reviewed for impairment on an annual basis or more frequently whenever indicators of impairment exist. At September 30, 2011, an $18.8 million impairment charge was recorded which reduced the carrying value of our non-amortizable intangible asset to $39.2 million. Indicators of impairment could include, but are not limited to:

- an inability to perform at levels that were forecasted;

- a permanent decline in market capitalization;
- implementation of restructuring plans;
- changes in industry trends; and/or
- unfavorable changes in our capital structure, cost of debt, interest rates or capital expenditures levels.

Situations such as these could result in an impairment that would require a material non-cash charge to our results of operations and could have a material adverse effect on our consolidated results of operations.

Our operations require substantial capital expenditures.

We require significant capital expenditures to maintain, upgrade and enhance our network facilities and operations. While we have historically been able to fund capital expenditures from cash generated from operations and borrowings under our revolver, the other risk factors described in this section could materially reduce cash available from operations or significantly increase our capital expenditure requirements, and these outcomes may result in our inability to fund the necessary level of capital expenditures to maintain, upgrade or enhance our network. This could adversely affect our business.

Risks Relating to Our Regulatory Environment

We are subject to significant regulations that could change in a manner adverse to us.

We operate in a heavily regulated industry. Laws and regulations applicable to us and our 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 us:

Risk of loss or reduction of network access charge revenues. A portion of our revenues comes from network access charges, which are paid to us by intrastate and interstate interexchange carriers for originating and terminating communications in the regions served. Through 2011, this also includes Universal Service Support payments for local switching support, long-term support, and Interstate Common Line Support (“ICLS”). Starting in 2012, these forms of universal service funding will be replaced by CAF which is described below and more fully in “Item 1. Business – Regulatory Environment.” Further, in recent years, several of the long-distance carriers have declared bankruptcy. Future declarations of bankruptcy by a carrier that utilizes our access services could negatively affect our business, financial condition, results of operations, liquidity and/or the market price of our Common Stock.

The amount of access charge revenues that we receive is based on rates set by federal and state regulatory bodies, and those rates will change according to the schedule established by the FCC in its recent order on universal service funding and intercarrier compensation. These impacts are described below and in “Item 1. Business – Regulatory Environment.” Further, from time to time federal and state regulatory bodies conduct rate cases, “earnings” reviews, or make adjustments to price cap formulas that may result in rate changes. In addition, reforms of the federal and state access charge systems, combined with the development of competition, have caused the aggregate amount of access charges paid by long-distance carriers to decrease.

On November 18, 2011, the FCC released the FCC CAF/ICC Order. In this order, the FCC replaced all existing USF for price cap carriers with its CAF. The amount of CAF that will be available to us has not been determined nor have the specific obligations that would be associated with such funding. We risk reductions in the amount of CAF that will be made available to us compared to current USF amounts. The specific obligations that will be associated with future CAF funding have not been determined and we risk not being able to accept CAF if the obligations exceed the funding. The FCC CAP/ICC Order fundamentally reforms the ICC system that governs how communications companies bill one another for handling traffic, gradually phasing down these charges. Additional reforms have been proposed. The reforms adopted by the FCC in their order will significantly change 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 in or loss of access charges may or may not result in offsetting increases in local, subscriber line or Universal Service Support revenues. Regulatory developments of this type could materially adversely affect our business, financial condition, results of operations, liquidity and/or the market price of our Common Stock.

Risk of loss or reduction of Universal Service Fund support . We receive federal Universal Service Fund Support, referred to as the Universal Service Fund, and in some cases, state universal support, to support our operations in high-cost areas. Through 2011, these federal revenues include Universal Service Support payments for local switching support, ICLS, or Interstate Access Support ("IAS"). High-cost support for our Northern New England operations, referred to as our non-rural operations or non-rural LECs, and for Telecom Group's traditional, rural local exchange operations, referred to as our rural operations or rural LECs, is determined pursuant to different methodologies, aspects of which are now under review. Effective January 1, 2012, the FCC has replaced all pre-2012 universal service programs with new CAF programs. These changes could result in a reduction to the USF revenues we receive. If we were unable to receive such support, or if that support was reduced, our Telecom operations would be unable to operate as profitably as they have historically. Moreover, if we raise prices for services to offset these losses of Universal Service Fund payments, the increased pricing of our services may disadvantage us competitively in the marketplace, resulting in additional potential revenue loss. See discussion of FCC CAF/ICC Order in "Item 1. Business – Regulatory Environment."

The FCC also is considering changes to its rules governing who contributes to the Universal Service Fund Support mechanisms, and on what basis. Any changes in the FCC's rules governing the manner in which entities contribute to the Universal Service Fund could have a material adverse effect on our business, financial condition, results of operations, liquidity and/or the market price of our Common Stock.

Risk of loss of statutory exemption from burdensome interconnection rules imposed on ILECs . Our rural LECs generally are exempt from the more burdensome requirements of the 1996 Act governing the rights of competitors to interconnect to ILEC 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 our rural LECs, we may be required to provide UNEs to competitors in our rural telephone company areas. As a result, more competitors could enter our traditional telephone markets than are currently expected, which could have a material adverse effect on our business, financial condition, results of operations, liquidity and/or the market price of our Common Stock.

Risks posed by costs of regulatory compliance . Regulations create significant compliance costs for us. Subsidiaries that provide intrastate services are generally subject to certification, tariff filing and other ongoing regulatory requirements by state regulators. Our interstate and intrastate access services are currently provided in accordance with tariffs filed with the FCC and state regulatory authorities, respectively. Challenges in the future to our tariffs by regulators or third parties or delays in obtaining certifications and regulatory approvals could cause us to incur substantial legal and administrative expenses, and, if successful, these challenges could adversely affect the rates that we are able to charge our customers, which could have a material adverse effect on our business, financial condition, results of operations, liquidity and/or the market price of our Common Stock.

In addition, our non-rural operations are subject to regulations not applicable to our rural operations, including but not limited to requirements relating to interconnection, the provision of UNEs, and the other market-opening obligations set forth in the 1996 Act. In approving the transfer of authorizations to us in the Merger, the FCC determined that our non-rural operations would be regulated as a Bell Operating Company following the completion of the Merger, subject to the same regulatory requirements that currently apply to the other Bell Operating Companies. The FCC also stated that we would be entitled to the same regulatory relief that Verizon New England had obtained in the region. Any changes made in connection with these obligations could increase our non-rural operations' costs or otherwise have a material adverse effect on our business, financial condition, results of operations, liquidity and/or the market price of our Common Stock. Moreover, we cannot predict the precise manner in which the FCC will apply the Bell Operating Company regulatory framework to us.

State regulators have also imposed conditions in various regulatory proceedings that could materially adversely affect our business, financial condition, results of operations, liquidity and/or the market price of our Common Stock. For example, in connection with the Merger and the Chapter 11 Cases, state regulatory authorities in Maine, New Hampshire and Vermont imposed certain requirements with respect to our operations in those states. See "Item 1. Business – Regulatory Environment – State Regulation – Regulatory Conditions to the Merger, as Modified in Connection with the Plan."

Our business also may be affected by legislation and regulation imposing new or greater obligations related to open Internet access, assisting law enforcement, bolstering homeland security, minimizing environmental impacts, protecting customer privacy or addressing other issues that affect our business. We cannot predict whether or to what extent the FCC might modify its rules or what compliance with those new rules might cost. Similarly, we cannot predict whether or to what extent federal or state legislators or regulators might impose new network access, security, environmental or other obligations on our business.

Risk of losses from rate reduction. Our local exchange companies that operate pursuant to intrastate 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 our business, financial condition, results of operations, liquidity and/or the market price of our Common Stock.

For a more thorough discussion of the regulatory issues that may affect our business, see “Item 1. Business—Regulatory Environment.”

ITEM 1B. UNRESOLVED STAFF COMMENTS

Not applicable.

ITEM 2. PROPERTIES

We own or lease all of the properties material to our business. Our headquarters is located in Charlotte, North Carolina, in a leased facility. We also have administrative offices, maintenance facilities, rolling stock, central office and remote switching platforms and transport and distribution network facilities in each of the 18 states in which we operate our LEC business. Our administrative and maintenance facilities are generally located in or near the communities served by our LECs and our central offices are often within the administrative building. Auxiliary battery or other non-utility power sources are at each central office to provide uninterrupted service in the event of an electrical power failure. Transport and distribution network facilities include fiber optic backbone and copper wire distribution facilities, which connect customers to remote switch locations or to the central office and to points of presence or interconnection with the long-distance carriers. These facilities are located on land pursuant to permits, easements or other agreements. Our rolling stock includes service vehicles, construction equipment and other required maintenance equipment.

We believe each of our respective properties is suitable and adequate for the business conducted thereon, is being appropriately used consistent with past practice and has sufficient capacity for the present intended purposes.

ITEM 3. LEGAL PROCEEDINGS

From time to time, we are involved in litigation and regulatory proceedings arising out of our operations. Management believes that we are not currently a party to any legal or regulatory proceedings, the adverse outcome of which, individually or in the aggregate, would have a material adverse effect on our financial position or results of operations. Notwithstanding that we emerged from Chapter 11 protection on the Effective Date, five of the Chapter 11 Cases are still in the process of being resolved.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

General

Our Common Stock is listed on the NASDAQ under the symbol "FRP".

Prior to January 25, 2011, our Old Common Stock traded (i) on the Pink Sheets under the symbol "FRCMQ" from October 26, 2009 to January 24, 2011 and (ii) on the New York Stock Exchange under the symbol "FRP" from our initial public offering on February 4, 2005 until October 23, 2009. All of our Old Common Stock was extinguished in accordance with the Plan on the Effective Date. Our existing Common Stock began trading on the NASDAQ on January 25, 2011.

Because the value of our Old Common Stock bears no relation to the value of our existing Common Stock, only the trading prices of our existing Common Stock, following its listing on the NASDAQ, are set forth below.

The following table shows the high and low sales prices per share of our New Common Stock as reported on the NASDAQ, from January 25, 2011 to December 31, 2011. The stock price information is based on published financial sources.

Year Ended December 31, 2011	High	Low
First quarter (January 25, 2011 through March 31, 2011)	$25.50	$16.00
Second quarter	17.50	8.74
Third quarter	9.86	4.06
Fourth quarter	6.43	3.13

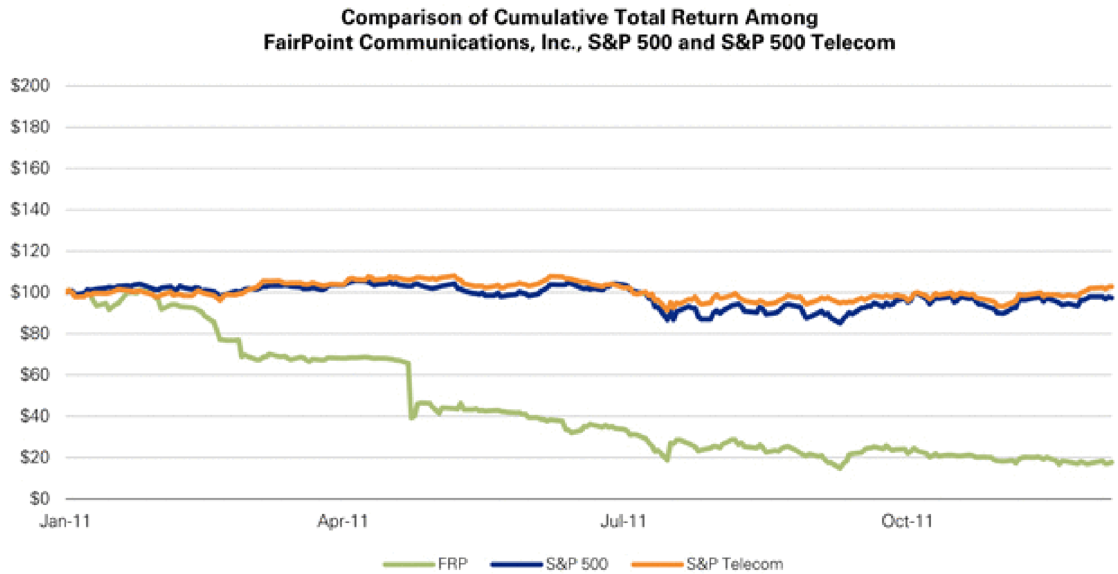
No dividends were declared on any class of our common stock in 2011 or 2010. We currently do not anticipate that we will pay any cash dividends on shares of our Common Stock for the foreseeable future. Any determination to pay dividends in the future will be at the discretion of our board of directors and will depend upon limitations imposed by orders of state regulatory authorities, results of operations, financial condition, contractual restrictions relating to indebtedness, restrictions imposed by applicable law and other factors our board of directors may deem relevant at the time.

As of March 2, 2012, there were approximately 134 holders of record of our Common Stock.

[Table of Contents](#)

Performance Graph

Set forth below is a line graph comparing the cumulative total stockholder return on shares of our common stock against (i) the cumulative total return of all companies listed on the S&P 500 and (ii) the cumulative total return of the S&P 500 Telecom sector. The period compared commences on January 25, 2011, the date our Common Stock began trading on the NASDAQ after we emerged from Chapter 11 bankruptcy protection, and ends on December 31, 2011. Because the value of our Old Common Stock bears no relation to the value of our existing Common Stock, the graph below reflects only our existing Common Stock. This graph assumes that $100 was invested on January 25, 2011 in our Common Stock and in each of the market index and the sector index at the closing price for FairPoint Communications and the respective indices, and that all cash distributions were reinvested.



Securities Authorized for Issuance under Equity Compensation Plans

The table below provides information, as of the end of the most recently completed fiscal year, concerning securities authorized for issuance under our equity compensation plans. As of December 31, 2011, the FairPoint Communications, Inc. 2010 Long Term Incentive Plan (the “Long Term Incentive Plan”) was the only equity compensation plan under which securities of the Company were authorized for issuance. The Long Term Incentive Plan was approved by the Bankruptcy Court in connection with the emergence from bankruptcy. For a description of the material features of the Long Term Incentive Plan, see note 15 of our financial statements contained in Item 8 herein.

Equity Compensation Plan Information

Plan Category	(a) Number of securities to be issued upon exercise of outstanding options, warrants and rights (1)	(b) Weighted average exercise price of outstanding options, warrants and rights	(c) Number of securities remaining available for future issuance under equity compensation plans excluding securities reflected in column (a)
Equity compensation plans approved by our stockholders	—	N/A	—
Equity compensation plans not approved by our stockholders	947,737	$ 24.29	1,642,924
Total	947,737	$ 24.29	1,642,924

(1) Includes 947,737 options to purchase shares of Common Stock under the Long Term Incentive Plan.

Repurchase of Equity Securities

We did not repurchase any equity securities during the three months ended December 31, 2011.

Unregistered Sales of Equity Securities

During the quarter ended December 31, 2011, pursuant to the Plan, the Company issued (i) 1,102 shares of Common Stock in the aggregate to holders of allowed unsecured claims against FairPoint Communications (the "FairPoint Communications Unsecured Claims") under the Plan, and (ii) warrants to purchase an aggregate of 1,878 shares of Common Stock, subject to adjustment upon the occurrence of certain events described in the Warrant Agreement that the Company entered into with the Bank of New York Mellon, as warrant agent, on the Effective Date, to holders of FairPoint Communications Unsecured Claims under the Plan.

Based on the Confirmation Order, the Company relied on Section 1145(a)(1) of the Bankruptcy Code to issue the new securities described above.

ITEM 6. SELECTED FINANCIAL DATA

On March 31, 2008, we completed the acquisition of Spinco, pursuant to which Spinco merged with and into FairPoint, with FairPoint continuing as the surviving corporation for legal purposes. Spinco was a wholly-owned subsidiary of Verizon and prior to the Merger the local exchange business of Verizon New England Inc. in Maine, New Hampshire and Vermont and the customers of Verizon and its subsidiaries (other than Cellco Partnership) (collectively, the "Verizon Group") transferred certain specified assets and liabilities of the local exchange businesses of Verizon New England in Maine, New Hampshire and Vermont and the customers of the related voice and Internet service provider businesses in those states to subsidiaries of Spinco. The Merger was accounted for as a "reverse acquisition" of FairPoint by Spinco under the purchase method of accounting because Verizon stockholders owned a majority of the shares of the consolidated Company following the Merger and, therefore, Spinco is treated as the acquirer for accounting purposes. The following financial information reflects the transaction as if Spinco had issued consideration to FairPoint's shareholders. As a result, for the year ended December 31, 2008, financial information derived from the statement of operations reflects the consolidated financial results of the Company by including the financial results of the Verizon Northern New England business for the three months ended March 31, 2008, the financial results of Spinco for the nine months ended December 31, 2008 and the financial results of FairPoint for the nine months ended December 31, 2008. Financial information derived from the statement of operations for all periods prior to April 1, 2008 reflects the actual results of the Verizon Northern New England business for such periods. Financial information derived from the balance sheet reflects the consolidated assets and liabilities of FairPoint and Spinco at December 31, 2008.

As of the Effective Date, we adopted fresh start accounting in accordance with guidance under the applicable reorganization accounting rules, pursuant to which our reorganization value, which represents the fair value of the entity before considering liabilities and approximates the amount a willing buyer would pay for the assets of the entity immediately after the reorganization, was allocated to the fair value of assets in conformity with guidance under the applicable accounting rules for business combinations, using the purchase method of accounting for business combinations. The amount remaining after allocation of the reorganization value to the fair value of identified tangible and intangible assets was reflected as goodwill, which is subject to periodic evaluation for impairment and was determined to be completely impaired at September 30, 2011. In addition to fresh start accounting, our post-emergence consolidated financial statements reflect all effects of the transactions contemplated by the Plan. Therefore, our post-emergence statements of financial position and statements of operations are not comparable in many respects to our consolidated statements of financial position and consolidated statements of operations for periods prior to our adoption of fresh start accounting and prior to accounting for the effects of the reorganization, including the historical financial statements contained herein.

On the Effective Date, in accordance with the Plan, all equity compensation plans in effect at the end of 2010 were terminated and all awards thereunder were cancelled and extinguished. In addition, on the Effective Date, in accordance with the Plan, (i) certain of our employees and a consultant of ours received Common Stock awards, consisting of restricted shares of Common Stock and/or options to purchase shares of Common Stock, pursuant to the terms of the Long Term Incentive Plan, and (ii) members of the board of directors received restricted shares of Common Stock and options to purchase Common Stock pursuant to the terms of the Long Term Incentive Plan. As of March 2, 2012, we had 26,194,442 shares of Common Stock outstanding.

All periods after the Effective Date are referred to as the "Successor Company," whereas all periods as of and preceding the Effective Date are referred to as the "Predecessor Company".

The following financial information should be read in conjunction with "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations" and our consolidated financial statements and notes thereto contained elsewhere in this Annual Report. Amounts are in thousands, except access lines and per share data.

	Successor Company	Predecessor Company				
			Year Ended December 31,			
	Three Hundred Forty-One Days Ended December 31, 2011	Twenty-Four Days Ended January 24, 2011	2010	2009	2008	2007
Statement of Operations:						
Revenues	$ 963,112	$ 66,378	$ 1,070,986	$ 1,119,090	$1,274,619	$1,197,465
Operating expenses:						
Cost of services and sales	438,619	38,766	525,728	515,394	576,786	555,954
Selling, general and administrative expenses	332,020	27,161	365,373	417,512	384,388	288,762
Depreciation and amortization	336,891	21,515	289,824	275,334	255,032	233,231
Reorganization related (income) expense	(232)	—	—	—	—	—
Impairment of intangible assets and goodwill	262,019	—	—	—	—	—
Total operating expenses	1,369,317	87,442	1,180,925	1,208,240	1,216,206	1,077,947
(Loss) income from operations	(406,205)	(21,064)	(109,939)	(89,150)	58,413	119,518
Interest expense (1)	(63,807)	(9,321)	(140,896)	(204,919)	(162,040)	(70,581)
Gain (loss) on derivative instruments	—	—	—	12,320	(11,800)	—
Gain on early retirement of debt	—	—	—	12,357	—	—
Other income, net	1,791	(132)	2,715	2,000	3,494	3,350
(Loss) income before reorganization items and income taxes	(468,221)	(30,517)	(248,120)	(267,392)	(111,933)	52,287
Reorganization items	—	897,313	(41,120)	(53,018)	—	—
(Loss) income before income taxes	(468,221)	866,796	(289,240)	(320,410)	(111,933)	52,287
Income tax benefit (expense)	53,276	(279,889)	7,661	79,014	43,408	(19,459)
Net (loss) income	$ (414,945)	$ 586,907	$ (281,579)	$ (241,396)	$ (68,525)	$ 32,828
Basic shares outstanding	25,838	89,424	89,424	89,271	80,443	53,761
Diluted shares outstanding	25,838	89,695	89,424	89,271	80,443	53,761
Basic (loss) earnings per share	$ (16.06)	$ 6.56	$ (3.15)	$ (2.70)	$ (0.85)	$ 0.61
Diluted (loss) earnings per share	$ (16.06)	$ 6.54	$ (3.15)	$ (2.70)	$ (0.85)	$ 0.61
Cash dividends per share	$ —	$ —	$ —	$ 0.2575	$ 0.773	$ —
Operating Data:						
Capital expenditures	$ 163,648	$ 12,477	$ 197,795	$ 178,752	$ 296,992	$ 149,458
Access line equivalents (2)	1,346,894	N/A	1,417,290	1,545,976	1,721,709	1,600,971
Residential access lines	645,453	N/A	712,591	802,668	926,610	882,933
Business access lines	311,241	N/A	327,812	357,605	392,496	371,041
Wholesale access lines (3)	76,065	N/A	87,142	97,161	107,243	124,123
HSD subscribers	314,135	N/A	289,745	288,542	295,360	222,874
Summary Cash Flow Data:						
Net cash provided by (used in) operating activities	$ 170,099	$ (81,091)	$ 191,626	$ 150,323	$ 57,505	$ 264,504
Net cash used in investing activities	(162,850)	(12,477)	(197,268)	(177,391)	(283,332)	(137,216)
Net cash (used in) provided by financing activities	(161)	(1,667)	1,784	66,098	296,152	(127,288)
Balance Sheet Data (at period end) (4):						
Cash, excluding restricted cash (5)	$ 17,350	$ 10,262	$ 105,497	$ 109,355	$ 70,325	$ —
Property, plant and equipment, net	1,663,065	1,823,670	1,859,700	1,950,435	2,013,515	1,628,066
Total assets	1,989,645	2,516,871	2,973,794	3,172,122	3,335,940	1,938,172
Total long-term debt (6)	1,000,000	1,000,000	2,520,959	2,515,446	2,470,253	—
Total stockholders' (deficit) equity	(106,143)	498,486	(587,418)	(218,427)	23,786	1,119,162

(1) Interest expense includes amortization of debt issue costs aggregating $0.6 million, $0.1 million, $2.0 million and $3.8 million for the 341 days ended December 31, 2011, the 24 days ended January 24, 2011 and the fiscal years ended December 31, 2010 and 2009, respectively, as well as amortization of debt discount of $0.5 million for the fiscal year ended December 31, 2009. Debt issue costs of $23.8 million on the Pre-Petition Credit Facility and, following the filing of the Chapter 11 Cases, $9.9 million of discount on the Pre-Petition Notes were written off in order to adjust the carrying amount of our pre-petition debt to the Bankruptcy Court approved amount of the allowed claims for our pre-petition debt. These write-offs are included in Reorganization items for the year ended December 31, 2009.

(2) Total access line equivalents includes voice access lines and HSD lines, which include DSL, wireless broadband, cable modem and fiber-to-the-premises.

(3) Wholesale access lines include residential and business resale lines and unbundled network element platform ("UNEP") lines.

(4) The balance sheet data reflected at January 24, 2011 is representative of the Successor Company after application of the Plan and the adoption of fresh start accounting.

(5) Excludes restricted cash of $25.1 million, $4.1 million, $4.0 million, $68.5 million and $0 at December 31, 2011, 2010, 2009, 2008 and 2007 and $86.8 million at January 24, 2011.

(6) Long-term debt at December 31, 2010 and 2009 is included in Liabilities subject to compromise (see note 2 to the consolidated financial statements for further information).

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion should be read in conjunction with our financial statements and the notes thereto included elsewhere in this Annual Report. The following discussion includes certain forward-looking statements. For a discussion of important factors, including the continuing development of our business, actions of regulatory authorities and competitors and other factors which could cause actual results to differ materially from the results referred to in the forward-looking statements, see "Item 1A. — Risk Factors" in this Annual Report.

Overview

We are a leading provider of communications services in rural and small urban communities, offering an array of services, including HSD, Internet access, data transport, voice, video and other broadband enabled product offerings. We operate in 18 states with approximately 1.3 million access line equivalents (including voice access lines and HSD lines, which include DSL, wireless broadband, cable modem and fiber-to-the-premises) in service as of December 31, 2011.

We were incorporated in Delaware in February 1991 for the purpose of acquiring and operating incumbent telephone companies in rural and small urban markets. Many of our telephone companies have served their respective communities for over 80 years.

Access lines have historically been an important element of our business. Over the past several years, communications companies, including FairPoint, have experienced a decline in access lines due to increased competition, including competition from CLECs, wireless carriers and cable television operators, increased availability of alternative communications services, including wireless and VoIP, and challenging economic conditions. While voice access lines are expected to continue to decline, we expect to offset a portion of this lost revenue with growth in special access, HSD and other broadband service revenue as we continue to build out our network to customers who did not previously have access to such products and to offer more competitive services to existing customers. In addition, due to the issues associated with the Cutover from the systems of Verizon in February 2009 with respect to our Northern New England operations and the filing for bankruptcy protection under Chapter 11 of the Bankruptcy Code in October 2009, we lost significant market share in recent years. Our strategy is to leverage our ubiquitous network in our Northern New England operations to regain market share, particularly in the business and wholesale markets and for data services.

We offer our Next Generation Network to support more HSD services and extend fiber into more communities across our Northern New England operations. This fiber-optic build also supplies critical infrastructure known as “backhaul” for wireless traffic in the region, and addresses the increasing bandwidth needs being driven by new applications for smart phones, tablets and other wireless devices. Today we provide cellular backhaul connectivity to more than 1,600 towers in our Northern New England footprint. Recent Ethernet network expansion allows us to provide fiber based Ethernet cellular backhaul to more than half of these towers.

From 2007 through January 2009, we were in the process of developing and deploying new systems, processes and personnel to replace those used by Verizon to operate and support our network and back-office functions in the Maine, New Hampshire and Vermont operations acquired from Verizon. These services were provided by Verizon under the Transition Services Agreement, dated as of January 15, 2007, which we entered into with certain subsidiaries of Verizon in connection with the Merger, as amended (the “Transition Services Agreement”), from March 31, 2008 through January 30, 2009. On January 30, 2009, we began the Cutover, and on February 9, 2009, we began operating our new platform of systems independently from the Verizon systems, processes and personnel.

Following the Cutover, many of these systems functioned without significant problems, but a number of the key back-office systems, such as order entry, order management and billing, experienced certain functionality issues as well as issues with communication among the systems. As a result of these systems functionality issues, as well as work force inexperience on the new systems, we experienced increased handle time by customer service representatives for new orders, and reduced levels of order flow-through across the systems, which caused delays in provisioning and installation and delays in the processing of bill cycles and collection treatment efforts. These issues impacted customer satisfaction and resulted in large increases in customer call volumes into our customer service centers. While many of these issues were anticipated, the magnitude of difficulties experienced was beyond our expectations. Because of these Cutover issues, we have incurred incremental costs in order to operate our business, including third-party contractor costs and internal labor costs in the form of overtime pay. By the end of 2010, we had substantially stabilized the back-office systems. We continue to work on improving our processes and systems to support revenue growth, enhance customer service and increase operational efficiency.

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

The Telecom Group and our Northern New England operations operate under different regulatory regimes in certain respects. For example, concerning interstate access, all of the Telecom Group regulated interstate services of FairPoint were regulated under a rate-of-return model, while all of the rate-regulated interstate services provided by the Verizon Northern New England business were regulated under a price cap model. See “Item 1. Business – Regulatory Environment” for further information regarding rate-of-return and price cap models. On May 10, 2010, we received FCC approval to convert our Telecom group operations in Maine and Vermont to the price cap model. These operations converted to price cap regulation on July 1, 2010. We have obtained permission to continue to operate our Telecom Group ILECs outside of Maine and Vermont under the rate-of-return or average schedule regime until the FCC completes its general review of whether to modify or eliminate the “all-or-nothing” rule. Without this permission, the all-or-nothing rule would require that all of our regulated operations be operated under the price cap model for federal regulatory purposes. In addition, while all of our operations generally are subject to obligations that apply to all LECs, our non-rural operations are subject to additional requirements concerning interconnection, non-discriminatory network access for competitive communications providers and other matters, subject to substantial oversight by state regulatory commissions. In addition, the FCC has ruled that our Northern New England operations must comply with the regulations applicable to the Bell Operating Companies. Our rural and non-rural operations are also subject to different regimes concerning universal service.

Overview of FCC Order to Reform Universal Service and Intercarrier Compensation

On October 27, 2011, the FCC adopted an Order and Further Notice of Proposed Rulemaking on Universal Service and Intercarrier Compensation reform. On November 18, 2011, the FCC released the FCC CAF/ICC Order. In this order, the FCC replaced all existing USF for price cap carriers with its CAF. The intent of the CAF is to bring high speed affordable broadband services to all Americans. The FCC CAF/ICC Order fundamentally reforms the ICC system that governs how communications companies bill one another for handling traffic, gradually phasing down these charges. Together, the modifications to the CAF and ICC rules are intended to benefit consumers and promote the goals of the National Broadband Plan, which called for overhauling these two complex systems to address the modern-day mission of supporting broadband deployment as cost-effectively as possible.

In conjunction with the FCC CAF/ICC Order, the FCC adopted a NPRM to deal with related matters, including but not limited to: (i) the actual cost model to be adopted for CAF Phase II funding, (ii) treatment of originating access charges, (iii) modifications to CAF for rate-of-return ILECs, (iv) development of CAF Phase II for mobility, (v) CAF Phase II reverse auction rules, (vi) remote areas funding and (vii) IP to IP interconnection issues. It is not known what decisions will be made on these issues or how they may impact us.

Fresh Start Accounting

On October 26, 2009, we filed the Chapter 11 Cases. On January 13, 2011, the Bankruptcy Court entered the Confirmation Order which confirmed the Plan.

On January 24, 2011, the Effective Date, we substantially consummated our reorganization through a series of transactions contemplated by the Plan, and the Plan became effective pursuant to its terms.

As of the Effective Date, we were required to adopt fresh start accounting in accordance with guidance under the applicable reorganization accounting rules, pursuant to which our reorganization value, which represents the fair value of an entity before considering liabilities and approximates the amount a willing buyer would pay for the assets of the entity immediately after the reorganization, was allocated to the fair value of assets in conformity with guidance under the applicable accounting rules for business combinations, using the purchase method of accounting for business combinations. The amount remaining after allocation of the reorganization value to the fair value of identified tangible and intangible assets was reflected as goodwill, which was subject to periodic evaluation for impairment and was later determined to be completely impaired at September 30, 2011. In addition to fresh start accounting, our consolidated financial statements reflect all effects of the transactions contemplated by the Plan. Therefore, our consolidated statements of financial position and consolidated statements of operations are not comparable in many respects to our consolidated statements of financial position and consolidated statements of operations for periods prior to our adoption of fresh start accounting and prior to accounting for the effects of the Plan, including certain of the historical financial statements contained herein.

While the adoption of fresh start accounting presents the results of operations of a new reporting entity, we believe the comparison of combined results of the year ended December 31, 2011 versus the years ended December 31, 2010 and 2009 provides the best analysis of the results of operations. The only statement of operations items impacted by the reorganization are depreciation expense, interest expense and reorganization items. Those effects of fresh start accounting are discussed in more detail in the respective sections below.

Basis of Presentation

We view our business of providing data, voice and communication services to residential, business and wholesale customers as one business segment as defined in the Segment Reporting Topic of the Accounting Standards Codification (“ASC”).

Revenues

We derive our revenues from:

- *Voice services.* We receive revenues from our telephone operations from the provision of local exchange, long distance, local private line, wire maintenance, voice messaging and value-added services. Included in long-distance services revenue are revenues received from regional toll calls. Value-added services are a family of services that expand the utilization of the network, including products such as caller ID, call waiting and call return. The provision of local exchange services not only includes retail revenues but also includes local wholesale revenues from UNEs, interconnection revenues from CLECs and wireless carriers, and some data transport revenues. Voice services revenues also include Universal Fund payments for high-cost support, local switching support, long-term support and ICLS.

- *Access.* We receive revenues for the provision of network access, including interstate access and intrastate access.

  Network access revenues are earned from end-user customers and long-distance and other competing carriers who use our local exchange facilities to provide usage services to their customers. Special access revenues originate from carriers and end-users that buy dedicated local and interexchange capacity to support their private networks, including wireless carriers to backhaul voice and data traffic from cell towers to mobile telephone switching offices. Switched access revenues are derived from fixed and usage-based charges paid by carriers for access to our local network.

  Interstate access revenues are earned on charges to long-distance carriers and other customers for access to our networks in connection with the origination and termination of interstate telephone calls both to and from our customers. Interstate access charges to long-distance carriers and other customers are based on access rates filed with the FCC.

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

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

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

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

	Successor Company Three Hundred Forty-One Days Ended December 31, 2011		Predecessor Company Twenty-Four Days Ended January 24, 2011		Combined Year Ended December 31, 2011	
	$	% of Revenue	$	% of Revenue	$	% of Revenue
Revenue Source:						
Voice services	$ 460,337	48%	$ 32,977	50%	$ 493,314	48%
Access	346,313	36%	23,023	35%	369,336	36%
Data and Internet services	110,238	11%	7,537	11%	117,775	11%
Other services	46,224	5%	2,841	4%	49,065	5%
Total	$963,112	100%	$66,378	100%	$1,029,490	100%

	Predecessor Company			
	Year Ended December 31, 2010		Year Ended December 31, 2009	
	$	% of Revenue	$	% of Revenue
Revenue Source:				
Voice services	$ 531,623	50%	$ 581,653	52%
Access	381,089	36%	380,502	34%
Data and Internet services	110,223	10%	109,942	10%
Other services	48,051	4%	46,993	4%
Total	$1,070,986	100%	$1,119,090	100%

The following table summarizes access line equivalents (including voice access lines and HSD lines, which include DSL, wireless broadband, cable modem and fiber-to-the-premises) as of December 31, 2011, 2010 and 2009:

	Successor Company	Predecessor Company	
	December 31, 2011	December 31, 2010	December 31, 2009
Access Line Equivalents:			
Residential access lines	645,453	712,591	802,668
Business access lines	311,241	327,812	357,605
Wholesale access lines(1)	76,065	87,142	97,161
Total switched access lines	1,032,759	1,127,545	1,257,434
HSD subscribers	314,135	289,745	288,542
Total access line equivalents	1,346,894	1,417,290	1,545,976

(1) Wholesale access lines include residential and business resale lines and UNEP lines.

Operating Expenses

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

- *Cost of Services and Sales*. Cost of services and sales includes the following costs directly attributable to a service or product: salaries and wages, benefits, materials and supplies, contracted services, network access and transport costs, customer provisioning costs, computer systems support and cost of products sold. Aggregate customer care costs, which include billing and service provisioning, are allocated between cost of services and sales and selling, general and administrative expenses.
- *Selling, General and Administrative Expense*. Selling, general and administrative expense includes salaries and wages and benefits not directly attributable to a service or product, bad debt charges, taxes other than income, advertising and sales commission costs, customer billing, call center and information technology costs, professional service fees and rent for administrative space. Also included in selling, general and administrative expenses are non-cash expenses related to stock based compensation. Stock based compensation consists of compensation charges incurred in connection with the employee stock options, stock units and non-vested restricted stock granted to executive officers, other employees and directors.
- *Depreciation and amortization*. Depreciation and amortization includes depreciation of our communications network and equipment and amortization of intangible assets.

Because the Verizon Northern New England business had been operating as the LEC of Verizon in Maine, New Hampshire and Vermont, and not as a standalone telecommunications provider, we operated under the Transition Services Agreement for the one month ended January 2009, under which we incurred $15.9 million of expenses. Subsequent to January 30, 2009, we performed those services internally or obtained them from third-party service providers and not from Verizon.

Results of Operations

Year Ended December 31, 2011 Compared with Year Ended December 31, 2010

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

	Successor Company	Predecessor Company	Combined		Predecessor Company	
	Three Hundred Forty-One Days Ended December 31, 2011	Twenty-Four Days Ended January 24, 2011	Year Ended December 31, 2011		Year Ended December 31, 2010	
			$	% of Revenue	$	% of Revenue
Revenues	$ 963,112	$ 66,378	$ 1,029,490	100%	$ 1,070,986	100%
Operating expenses:						
Costs of services and sales	438,619	38,766	477,385	46	525,728	49
Selling, general and administrative	332,020	27,161	359,181	35	365,373	34
Depreciation and amortization	336,891	21,515	358,406	35	289,824	27
Reorganization related (income) expense	(232)	—	(232)	—	—	—
Impairment of intangible assets and goodwill	262,019	—	262,019	26	—	—
Total operating expenses	1,369,317	87,442	1,456,759	142	1,180,925	110
Loss from operations	(406,205)	(21,064)	(427,269)	(42)	(109,939)	(10)
Interest expense	(63,807)	(9,321)	(73,128)	(6)	(140,896)	(13)
Other income (expense)	1,791	(132)	1,659	—	2,715	—
Loss before reorganization items and income taxes	(468,221)	(30,517)	(498,738)	(48)	(248,120)	(23)
Reorganization items	—	897,313	897,313	87	(41,120)	(4)
(Loss) income before income taxes	(468,221)	866,796	398,575	39	(289,240)	(27)
Income tax benefit (expense)	53,276	(279,889)	(226,613)	(22)	7,661	1
Net (loss) income	$ (414,945)	$ 586,907	$ 171,962	17%	$ (281,579)	(26)%

Revenues

Revenues decreased $41.5 million to $1,029.5 million in 2011 compared to 2010. We derived our revenues from the following sources:

Voice services. Voice services revenues decreased $38.3 million to $493.3 million during 2011 compared to 2010, of which $35.0 million of the decrease is attributable to local calling services revenues and $3.3 million of the decrease is attributable to long distance service revenues. This decrease in voice services revenues is primarily due to the impact of an 8.4% decline in total switched access lines in service at December 31, 2011 compared to December 31, 2010, partially offset by a $2.8 million decline in SQI penalties and a $4.8 million decrease in PAP credits recorded during 2011 as compared to 2010. Due to various factors, adjustments to SQI and PAP reserves resulted in a net increase in voice services revenue of $2.2 million in 2011. The decrease in the number of voice access lines is due to an increase in competition and our customers' use of alternative technologies.

Access. Access revenues decreased $11.8 million to $369.3 million in 2011 compared to 2010. Growth in special access revenue is being offset by declines in switched access revenues as minutes of use decline. Special access revenue increased primarily due to revenue assurance activities, including back-billing. Switched access revenues decreased primarily due to an 8.4% decline in total switched access lines in service at December 31, 2011 compared to December 31, 2010.

Data and Internet services. Data and Internet services revenues increased $7.6 million to $117.8 million in 2011 compared to 2010. The increase was primarily attributable to an 8.4% increase in the number of HSD subscribers from December 31, 2010 to December 31, 2011 resulting from our expanded HSD footprint, bundling and other marketing efforts.

Other services. Other services revenues increased $1.0 million to $49.1 million in 2011 compared to 2010.

Operating Expenses

Cost of services and sales. Cost of services and sales decreased $48.3 million to $477.4 million in 2011 compared to 2010. In 2011, we experienced an $5.2 million decrease in employee expenses, a $7.8 million decrease in deferred charges related to customer activation fees and a $15.1 million reduction in expense associated with the abandonment of capital projects. These decreases in 2011 were partially offset by severance expenses of $6.6 million associated with the workforce reduction announced in September 2011. In addition, cost of services and sales in 2010 included certain non-recurring expenses totaling $13.3 million which contributed to the decrease in 2011.

As a result of fresh start accounting, we wrote off all deferred charges which had been deferred in prior periods and were being amortized into expense over an average customer life. After fresh start, we began to defer any new expenses incurred associated with customer activation fees. Prior to the Effective Date, the amortization of expense each year was greater than the deferral (resulting in a net increase in expense), whereas after fresh start the deferral is greater than the amortization (resulting in a net decrease in expense).

Selling, general and administrative. Selling, general and administrative expenses decreased $6.2 million to $359.2 million in 2011 compared to 2010. The decrease is primarily attributable to reductions in general and administrative expenses associated with our efforts to streamline expenses. These improvements were offset by a $1.3 million increase in bad debt expense, increasing from $20.5 million in 2010 to $21.8 million in 2011, a $7.0 million increase in pension and post-retirement healthcare plan expenses recorded during 2011 and $1.3 million of severance expense related to the workforce reduction that was announced in September 2011.

Depreciation and amortization. Depreciation and amortization increased $68.6 million to $358.4 million in 2011 compared to 2010. This increase is comprised of a $79.3 million increase in depreciation expense offset by a $10.7 million decrease in amortization of intangible assets. In conjunction with the adoption of fresh start accounting, our assets and liabilities were recorded at fair value. On the Effective Date, while the carrying value of property, plant and equipment was written down to fair value, the remaining useful lives established were, in general, shorter than their original estimated useful lives. This has resulted in an increase in depreciation expense from the prior year.

Reorganization related expense. Reorganization related expense represents expense or income amounts that have been recognized as a direct result of the Chapter 11 Cases, occurring after the Effective Date. During 2011, reorganization related expense is comprised of a $7.3 million reversal of a portion of the claims reserve established to pay outstanding bankruptcy claims and various other bankruptcy related fees (the "Claims Reserve") due to several favorable settlements during the year and an estimation of future favorable settlements, offset by $7.0 million of restructuring professional fees primarily related to fresh start accounting and continuing work to settle outstanding claims.

Table of Contents

Impairment of intangible assets and goodwill. Impairment of long-lived assets and goodwill for 2011 is comprised of an impairment of $243.2 million to reduce the carrying value of goodwill to zero and an impairment of $18.8 million to reduce the carrying value of a non-amortizable intangible asset related to our trade name to fair value.

Included in operating expenses are non-cash stock based compensation expenses associated with the award of restricted stock and stock options. Stock based compensation expenses totaled $9.3 million and $0.5 million for the years ended December 31, 2011 and 2010, respectively.

Other Results

Interest expense. Interest expense decreased $67.8 million to $73.1 million in 2011 compared to 2010. Upon the filing of the Chapter 11 Cases, in accordance with the Reorganizations Topic of the ASC, we ceased the accrual of interest expense on the Pre-Petition Notes and the interest rate swap agreements under the ISDA Master Agreement with Wachovia Bank, N.A., dated as of December 12, 2000, as amended and restated as of February 1, 2008, and the ISDA Master Agreement with Morgan Stanley Capital Services Inc., dated as of February 1, 2005 (collectively, the "Swaps"), as it was unlikely that such interest expense would be paid or would become an allowed priority secured or unsecured claim. We continued to accrue interest expense on the Pre-Petition Credit Facility, as such interest was considered an allowed claim pursuant to the Plan. Upon the Effective Date, we entered into the Credit Agreement and began accruing interest on the Revolving Facility and Term Loan (together, the "Credit Agreement Loans").

Other income (expense). Other income (expense) includes non-operating gains and losses such as those incurred on the sale or disposal of equipment. Other income was $1.7 million in 2011 compared to other income of $2.7 million in 2010.

Reorganization items. Reorganization items represent expense or income amounts that have been recognized as a direct result of the Chapter 11 Cases, prior to the Effective Date. For more information, see note 2 to the consolidated financial statements.

Income taxes. The effective income tax rate is the provision for income taxes stated as a percentage of income before the provision for income taxes. The effective income tax rate for the years ended December 31, 2011 and 2010 was 56.9% expense and 2.6% benefit, respectively. The effective tax rate for the year ended December 31, 2011 was primarily impacted by an impairment charge reducing the carrying value of goodwill to zero and from certain non-taxable cancellation of indebtedness income resulting from our emergence from bankruptcy. The effective tax rate for the year ended December 31, 2010 was impacted by a one-time, non-cash income tax charge of $6.8 million, as a result of the enactment of the Health Care Act (as hereinafter defined). The effective tax rate was also impacted by non-deductible restructuring charges and post-petition interest, as well as a significant increase in our valuation allowance for deferred tax assets due to our inability, by rule, to rely on future earnings to offset our NOLs during the Chapter 11 Cases. Upon the Effective Date, our NOLs were substantially reduced by the recognition of gains on the discharge of certain debt pursuant to the Plan.

Net income (loss). Net income for the year ended December 31, 2011 was $172.0 million compared to a net loss of $(281.6) million for the year ended December 31, 2010. The difference in net income (loss) between 2011 and 2010 is a result of the factors discussed above.

Year Ended December 31, 2010 Compared with Year Ended December 31, 2009

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

	Predecessor Company			
	Year Ended December 31, 2010		Year Ended December 31, 2009	
	$	% of revenue	$	% of revenue
Revenues	$ 1,070,986	100%	$ 1,119,090	100%
Operating expenses:				
Cost of services and sales	525,728	49	515,394	46
Selling, general and administrative	365,373	34	417,512	37
Depreciation and amortization	289,824	27	275,334	25
Total operating expenses	1,180,925	110	1,208,240	108
Loss from operations	(109,939)	(10)	(89,150)	(8)
Interest expense	(140,896)	(13)	(204,919)	(18)
Gain on derivative instruments	—	—	12,320	1
Gain on early retirement of debt	—	—	12,357	1
Other income (expense)	2,715	—	2,000	—
Loss before reorganization items and income taxes	(248,120)	(23)	(267,392)	(24)
Reorganization items	(41,120)	(4)	(53,018)	(5)
Loss before income taxes	(289,240)	(27)	(320,410)	(29)
Income tax benefit	7,661	1	79,014	7
Net loss	$ (281,579)	(26)%	$ (241,396)	(22)%

Revenues

Revenues decreased $48.1 million to $1,071.0 million in 2010 compared to 2009. Revenues in each of our revenue categories have been impacted by continued weakness of the economy during 2010, which has caused a decrease in discretionary consumer spending and resulted in an increase in access line losses and a decrease in usage. Our voice revenues have also been adversely impacted by the effects of competition and the use of alternative technologies. Additionally, because of Cutover issues that prevented us from executing fully on our operating plan for 2009, as well as detrimental effects of the Chapter 11 Cases, our revenue has continued to decline. We derived our revenues from the following sources:

Voice services. Voice services revenues decreased $50.0 million to $531.6 million in 2010. This decrease consists of a $30.8 million decrease in long distance services revenues and a $19.2 million decrease in local calling services revenues and is primarily attributable to a 10.3% decline in total voice access lines in service at December 31, 2010 compared to December 31, 2009, largely offset by a $13.6 million decline in SQI penalties in addition to a $12.7 million reduction of an accrual for forgiveness of fiscal 2008 and 2009 SQI penalties in New Hampshire and Vermont. SQI penalties are settled by crediting customer accounts and are recorded as a reduction to revenue. The decrease in the number of voice access lines is due to an increase in competition from technology substitution and the weakness of the economy.

Access. Access revenues were steady in 2010, increasing $0.6 million to $381.1 million in 2010 compared to 2009. Of this increase, $12.2 million is attributable to an increase in interstate access revenues, largely offset by an $11.6 million decrease in intrastate access revenues. A significant decrease in switched access revenues was primarily attributable to a 10.3% decline in total voice access lines in service at December 31, 2010 compared to December 31, 2009. However, this decline was completely offset by an increase in special access revenues driven by increased efforts to sell our excess network capacity to other carriers as well as the availability of such excess capacity resulting from the build-out of our Next Generation Network.

Data and Internet services. Data and Internet services revenues increased $0.3 million to $110.2 million in 2010 compared to 2009. This increase is primarily attributable to an increase in HSD subscribers resulting from our bundling and other marketing efforts.

Other services. Other services revenues increased $1.1 million to $48.1 million in 2010 compared to 2009.

Operating Expenses

Cost of services and sales. Cost of services and sales increased $10.3 million to $525.7 million in 2010 compared to 2009. This increase is primarily attributable to the write-off of abandoned projects in 2010 of approximately $15.1 million. Cost of services and sales was also impacted by certain non-recurring items totaling approximately $13.3 million. Excluding the abandonment charges and the non-recurring items, cost of services and sales would have declined approximately $18.1 million.

Selling, general and administrative. Selling, general and administrative expenses decreased $52.1 million to $365.4 million in 2010 compared to 2009. The decrease is primarily attributable to a $27.9 million reduction in bad debt expense due to improved cash collections during 2010 and settlements with CLECs related to the Chapter 11 Cases. Additionally, prior to the Petition Date, all expenses related to restructuring activities were classified as selling, general and administrative expenses. During the Chapter 11 Cases, such expenses have been classified as Reorganization items. Accordingly, the year ended December 31, 2009 included $11.1 million in restructuring expenses as compared to zero for the year ended December 31, 2010.

Depreciation and amortization. Depreciation and amortization increased $14.5 million to $289.8 million in 2010 compared to 2009, due primarily to significant capital expenditures in 2010 and the placement of plant assets into service.

Included in operating expenses are non-cash stock based compensation expenses associated with the award of restricted stock and stock units. Stock based compensation expenses totaled $0.5 million and $2.1 million for the years ended December 31, 2010 and 2009, respectively.

Other Results

Interest expense. Interest expense decreased $64.0 million to $140.9 million in 2010 compared to 2009. Upon the filing of the Chapter 11 Cases, in accordance with the Reorganizations Topic of the ASC, we ceased the accrual of interest expense on the Pre-Petition Notes and the Swaps as it was unlikely that such interest expense would be paid or would become an allowed priority secured or unsecured claim, resulting in a significant decrease in 2010 interest expense. We continued to accrue interest expense on the Pre-Petition Credit Facility, as such interest is considered an allowed claim pursuant to the Plan.

Gain (loss) on derivative instruments. Gain (loss) on derivative instruments represents net gains and losses recognized on the change in fair market value of interest rate swap derivatives. During the year ended December 31, 2009 we recognized a net non-cash gain of $12.3 million related to our derivative financial instruments. In connection with the filing of the Chapter 11 Cases, the Swaps were terminated by the counterparties and have been recorded on the consolidated balance sheet at the termination values provided by the counterparties. Accordingly, we recognized no gain or loss on derivative instruments during the year ended December 31, 2010.

Gain on early retirement of debt. Gain on early retirement of debt represents $13.2 million net gains recognized on the repurchase of $19.9 million aggregate principal amount of the Old Notes during the year ended December 31, 2009, partially offset by a loss of $0.8 million attributable to writing off a portion of the unamortized debt issue costs associated with the Pre-Petition Credit Facility. We did not retire any debt during the year ended December 31, 2010 and thus did not recognize any gain or loss on early retirement of debt during such period.

Other income (expense). Other income (expense) includes non-operating gains and losses such as those incurred on sale or disposal of equipment. Other income was $2.7 million in 2010 compared to other income of $2.0 million in 2009. This increase is primarily attributable to a $3.0 million lease contract settlement with a vendor that occurred during the third quarter of 2010.

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

Income taxes. The effective income tax rate is the provision for income taxes stated as a percentage of income before the provision for income taxes. The effective income tax rate for the years ended December 31, 2010 and 2009 was 2.6% benefit and 24.7% benefit, respectively. The effective tax rate for the year ended December 31, 2010 was impacted by a one-time, non-cash income tax charge of $6.8 million, as a result of the enactment of the Patient Protection and Affordable Care Act and the Health Care and Education Reconciliation Act of 2010, both of which became law in March 2010 (collectively, the “Health Care Act”). The effective tax rate was also impacted by non-deductible restructuring charges and post-petition interest, as well as a significant increase in our valuation allowance for deferred tax assets due to our inability, by rule, to rely on future earnings to offset our NOLs during the Chapter 11 Cases. Upon the Effective Date, our NOLs were substantially reduced by the recognition of gains on the discharge of certain debt pursuant to the Plan.

Net loss. Net loss for the year ended December 31, 2010 was $(281.6) million compared to net loss of $(241.4) million for the year ended December 31, 2009. The difference in net loss between 2010 and 2009 is a result of the factors discussed above.

Liquidity and Capital Resources

Overview

Upon our emergence from Chapter 11 on January 24, 2011, we adopted fresh start accounting in accordance with guidance under the applicable reorganization accounting rules. Accordingly, our post-emergence consolidated statements of financial position, consolidated statements of operations and statements of cash flows are not comparable in many respects to our consolidated statements of financial position, consolidated statements of operations and statements of cash flows for periods prior to the adoption of fresh start accounting and prior to accounting for the effects of the reorganization.

Our short-term and long-term liquidity needs arise primarily from: (i) interest and principal payments on our indebtedness; (ii) capital expenditures; (iii) working capital requirements as may be needed to support and grow our business; and (iv) contributions to our defined pension plan and payments under our post-retirement healthcare plans. Our current and future liquidity is greatly dependent upon our operating results. We expect that our primary sources of liquidity will be cash flow from operations, cash on hand and funds available under the Revolving Facility.

Based on our current and anticipated levels of operations and conditions in our markets, we believe that cash on hand (including amounts available under our Revolving Facility) as well as cash flow from operations will enable us to meet our working capital, capital expenditure, debt service and other funding requirements for at least the next 12 months. We expect to be in compliance with the maintenance covenants contained in the Credit Agreement for 2012. However, our anticipated results are subject to significant uncertainty and our ability to comply with these covenants may be affected by events beyond our control, including prevailing economic, financial and industry conditions. The breach of certain covenants set forth in our financing agreements could result in an event of default thereunder. An event of default, if not cured within defined cure periods, if any, would permit the lenders under a defaulted financing agreement to declare all indebtedness thereunder to be due and payable prior to maturity. Moreover, the lenders under our Revolving Facility would have the option to terminate their commitments to make further extensions of revolving credit thereunder. If we are unable to repay our obligations under our Credit Agreement, the lenders could proceed against any assets that were pledged to secure such facility.

Cash and cash equivalents at December 31, 2011 totaled $17.4 million compared to $105.5 million at December 31, 2010, excluding restricted cash of $25.1 million and $4.1 million, respectively. On the Effective Date, we significantly reduced our cash on hand by approximately $89.9 million to establish the cash claims reserve (the “Cash Claims Reserve”). Tax related claims were not included in the Cash Claims Reserve. As of the Effective Date, cash and cash equivalents totaled $10.3 million, excluding the Cash Claims Reserve of $82.8 million, following payment of $7.1 million in claims on the Effective Date. In accordance with the Plan, to the extent that claims are settled for amounts lower than estimated in the Cash Claims Reserve, we could reclaim restricted cash of up to $22.9 million. As of December 31, 2011, we had reclaimed $6.2 million of restricted cash. There is no certainty that we will reclaim any, or all, of the $22.9 million balance remaining at December 31, 2011.

Cash Flows

Net cash provided by (used in) operating activities was $170.1 million, ($81.1) million, $191.6 million and $150.3 million for the 341 days ended December 31, 2011, the 24 days ended January 24, 2011 and the years ended December 31, 2010 and 2009, respectively. Net cash provided by operating activities for the 341 days ended December 31, 2011 represents the operating activities of the Successor Company; however, it includes payment of $66.7 million in claims of the Predecessor Company, of which $59.9 million of these claims were paid using funds from the Cash Claims Reserve established on the Effective Date by the Predecessor Company. After a $7.1 million payment of claims on the Effective Date, the Cash Claims Reserve totaled $82.8 million and is reflected in net cash used in operating activities during the 24 days ended January 24, 2011. Upon the filing of the Chapter 11 Cases, we continued to accrue interest expense on the Pre-Petition Credit Facility, as such interest was considered an allowed claim pursuant to the Plan. During the 24 days ended January 24, 2011, the year ended December 31, 2010 and the sixty-six days from the Petition Date to December 31, 2009, no payments of interest were made, resulting in an increase in cash provided by operations of $9.0 million, $137.1 million and $61.3 million, respectively. Upon the Effective Date, we began paying interest on our outstanding debt in the normal course during the 341 days ended December 31, 2011.

Net cash used in investing activities was $162.9 million, $12.5 million, $197.3 million and $177.4 million for the 341 days ended December 31, 2011, the 24 days ended January 24, 2011 and the years ended December 31, 2010 and 2009, respectively, and is mainly comprised of capital expenditures for all periods.

Net cash (used in) provided by financing activities was ($0.2) million, ($1.7) million, $1.8 million and $66.1 million for the 341 days ended December 31, 2011, the 24 days ended January 24, 2011 and the years ended December 31, 2010 and 2009, respectively. We paid $2.4 million of loan origination costs on the Credit Agreement, of which $0.9 million and $1.5 million were paid during the 341 days ended December 31, 2011 and the 24 days ended January 24, 2011, respectively. For the year ended December 31, 2010, we drew down $5.5 million on letters of credit under the Pre-Petition Credit Facility and incurred $1.5 million of loan origination costs on the DIP Credit Agreement, which was terminated by its conversion into the Revolving Facility, and all notes, security agreements and other agreements related to the DIP Credit Agreement. For the year ended December 31, 2009, net proceeds from our issuance of long-term debt were $50.0 million, repayment of long-term debt was $20.8 million and dividends paid to stockholders was $23.0 million. Additionally, $65.1 million was released from restricted cash during the year ended December 31, 2009.

We made contributions to our Company sponsored qualified pension plans and post-retirement healthcare plans of $6.8 million and $0.8 million, respectively, in 2011. In addition, we made $1.8 million in post-retirement healthcare plan expenditures in 2011. We expect to contribute approximately $19.8 million to our Company sponsored qualified pension plans, as required by the Pension Protection Act of 2006, and approximately $5.5 million to our post-retirement healthcare plans in 2012. In 2011, due to lower interest rates and higher healthcare rate increases, we had a significant cost increase in our qualified pension and post-retirement healthcare liabilities. While this may not affect our short-term cash position, it may indicate the need for higher cash contributions in the future.

Capital Expenditures

We require significant capital expenditures to maintain, upgrade and enhance our network facilities and operations. In 2011, our capital expenditures totaled $176.1 million. We anticipate that we will fund future capital expenditures through cash flows from operations, cash on hand and funds available under the Revolving Facility.

We have a five year contract with our primary IT vendor, which was executed in 2009. In the years ended December 31, 2011 and 2010, we spent approximately $22.1 million and $28.7 million, respectively, for services under such contract, of which approximately $9.2 million and $12.8 million, respectively, was capitalized in accordance with the Intangibles – Goodwill and Other Topic and the Interest Topic of the ASC and approximately $12.9 million and $15.9 million, respectively, was included in operating expenses. In 2011, we provided notice to the vendor of our intent to in-source or alternatively source certain functions which we expected would result in a future reduction of approximately 95% of the baseline service costs commencing on April 11, 2012 from this vendor. We expect that these savings will be largely offset in the near term by other vendors for these functions and other IT initiatives.

Debt

Credit Agreement

On the Effective Date, the Borrowers entered into the Credit Agreement. The Credit Agreement is comprised of the Revolving Facility, which has a sub-facility providing for the issuance of up to $30.0 million of letters of credit, and the Term Loan. On the Effective Date, we paid to the lenders providing the Revolving Facility an aggregate fee equal to $1.5 million. Interest on the Credit Agreement Loans accrues at an annual rate equal to either (a) LIBOR plus 4.50%, with a minimum LIBOR floor of 2.00% for the Term Loan, or (b) a base rate plus 3.50% per annum, which base rate is equal to the highest of (x) Bank of America's prime rate, (y) the federal funds effective rate plus 0.50% and (z) LIBOR (with minimum LIBOR floor of 2.00%) plus 1.00%. In addition, we are required to pay a 0.75% per annum commitment fee on the average daily unused portion of the Revolving Facility. The entire outstanding principal amount of the Credit Agreement Loans is due and payable five years after the Effective Date (the "Maturity Date"); provided that on the third anniversary of the Effective Date, we must elect (subject to the absence of events of default under the Credit Agreement) to continue the maturity of the Revolving Facility and must pay a continuation fee of $0.75 million and, on the fourth anniversary of the Effective Date, we must elect (subject to the absence of events of default under the Credit Agreement) to continue the maturity of the Revolving Facility and must pay a second continuation fee of $0.75 million. The Credit Agreement requires quarterly repayments of principal of the Term Loan after the first anniversary of the Effective Date. In the second and third years following the Effective Date, such quarterly payments shall each be in an amount equal to $2.5 million; during the fourth year following the Effective Date, such quarterly payments shall each be in an amount equal to $6.25 million; and for the first three quarters during the fifth year following the Effective Date, such quarterly payments shall each be in an amount equal to $12.5 million, with all remaining outstanding amounts owed in respect of the Credit Agreement being due and payable on the Maturity Date. As of December 31, 2011, we had approximately $62.6 million, net of approximately $12.4 million outstanding letters of credit, available for additional borrowing under our Revolving Facility.

The Credit Agreement Loans are guaranteed by all of our current and future direct and indirect subsidiaries, other than (x) any subsidiary that is prohibited by applicable law from guaranteeing the obligations under the Credit Agreement Loans and/or providing any security therefor without the consent of a state public utilities commission, and (y) any subsidiary of ours that is a controlled foreign corporation or a subsidiary that is held directly or indirectly by a controlled foreign corporation (the guarantor subsidiaries, together with FairPoint Communications and FairPoint Logistics, are collectively referred to as the "Financing Loan Parties"). The Credit Agreement Loans as a whole are secured by liens upon substantially all existing and after-acquired assets of the Financing Loan Parties, with first lien and payment waterfall priority for the Revolving Facility and second lien priority for the Term Loan.

The Credit Agreement contains customary representations, warranties and affirmative covenants. In addition, the Credit Agreement contains restrictive covenants that limit, among other things, the ability of the Financing Loan Parties to incur indebtedness, create liens, engage in mergers, consolidations and other fundamental changes, make investments or loans, engage in transactions with affiliates, pay dividends, make capital expenditures and repurchase capital stock. The Credit Agreement also contains minimum interest coverage and maximum total leverage maintenance covenants, along with a maximum senior leverage covenant measured upon the incurrence of certain types of debt. The ratios measured in these covenants, which are reported quarterly, periodically adjust to become more restrictive as set forth in the Credit Agreement. The initial adjustment for each of the three covenants will be reflected in the quarterly covenant reporting for the third quarter of 2013. The Credit Agreement contains certain events of default, including failure to make payments, breaches of covenants and representations, cross defaults to other material indebtedness, unpaid and uninsured judgments, changes of control and bankruptcy events of default. The lenders' commitments to fund amounts under the Revolving Facility are subject to certain customary conditions. As of December 31, 2011, the Borrowers were in compliance with all covenants under the Credit Agreement.

The Credit Agreement also provides for mandatory prepayments of outstanding balances on the Credit Agreement Loans with the proceeds from certain asset dispositions, certain equity and debt issuances, and certain extraordinary cash receipts. Proceeds from such events may be reinvested by the Borrowers in lieu of any such mandatory prepayment under certain circumstances. In addition, at the end of each fiscal year, a test is performed to determine if excess cash flow, as defined in the Credit Agreement, was generated during the year. If the calculation indicates that excess cash flow was generated, a certain percentage (determined by reference to the total leverage ratio) of such excess cash flow is required to be prepaid against outstanding balances. Any mandatory prepayments are first applied to the Revolving Facility until repaid and then to the Term Loan.

The above summary of the material terms of the Credit Agreement Loans does not purport to be complete and is qualified in its entirety by reference to the text of (i) the Credit Agreement, (ii) the Pledge Agreement, dated as of the Effective Date, made by the pledgors party thereto in favor of Bank of America, N.A., as administrative agent, for the benefit of certain secured parties, (iii) the Security Agreement, dated as of the Effective Date, by and among FairPoint Communications, FairPoint Logistics, our subsidiaries party thereto and Bank of America, N.A., as administrative agent, for the benefit of certain secured parties and (iv) the Continuing Guaranty Agreement, dated as of the Effective Date, made by and among the guarantors party thereto in favor of Bank of America, N.A., as administrative agent, for the benefit of certain secured parties.

Our DIP Facility

In connection with the Chapter 11 Cases, on October 27, 2009, the DIP Borrowers entered into the DIP Credit Agreement with the DIP Lenders and the DIP Administrative Agent. The DIP Credit Agreement provided for a revolving facility in an aggregate principal amount of up to $75.0 million, of which up to $30.0 million was also available in the form of one or more letters of credit that may be issued to third parties for our account (the "DIP Financing"). Pursuant to an Order of the Bankruptcy Court, dated October 28, 2009 (the "Interim Order"), the DIP Borrowers were authorized to enter into and immediately draw upon the DIP Credit Agreement on an interim basis in an aggregate amount of $20.0 million, pending a final hearing before the Bankruptcy Court. Pursuant to a final order of the Bankruptcy Court, dated March 11, 2010 (the "Final DIP Order"), the DIP Borrowers were permitted access to the total $75.0 million of the DIP Financing, subject to the terms and conditions of the DIP Credit Agreement and related orders of the Bankruptcy Court, of which up to $30.0 million was available in the form of one or more letters of credit that could be issued to third parties for our account. As of December 31, 2010 and 2009, we had not borrowed any amounts under the DIP Credit Agreement other than letters of credit totaling $18.7 million and $1.6 million, respectively, that had been issued and were outstanding under the DIP Credit Agreement.

On the Effective Date, the DIP Credit Agreement was converted into the new $75.0 million Revolving Facility with a five-year term. All letters of credit outstanding under the DIP Credit Agreement were transferred to the Credit Agreement on the Effective Date.

Our Pre-Petition Credit Facility

Our $2,030.0 million Pre-Petition Credit Facility consisted of a non-amortizing revolving facility in an aggregate principal amount of $200.0 million, a senior secured term loan A facility in an aggregate principal amount of $500.0 million (the “Term Loan A Facility”), a senior secured term loan B facility in the aggregate principal amount of $1,130.0 million (the “Term Loan B Facility” and, together with the Term Loan A Facility, the “Pre-Petition Term Loan”) and a delayed draw term loan facility in an aggregate principal amount of $200.0 million (the “Delayed Draw Term Loan”). Spinco drew $1,160.0 million under the Pre-Petition Term Loan immediately prior to being spun off by Verizon, and then FairPoint drew $470.0 million under the Pre-Petition Term Loan and $5.5 million under the Delayed Draw Term Loan concurrently with the closing of the Merger. Subsequent to the Merger, we borrowed the remaining $194.5 million available under the Delayed Draw Term Loan. These funds were used for certain capital expenditures and other expenses associated with the Merger.

On the Effective Date, the Pre-Petition Credit Facility and all obligations thereunder were terminated (except that the Pre-Petition Credit Facility continues in effect solely for the purposes of allowing creditors under the Pre-Petition Credit Facility to receive distributions under the Plan and to preserve certain rights of the administrative agent).

Our Pre-Petition Notes

Spinco issued, and we assumed in the Merger, $551.0 million aggregate principal amount of the Old Notes. The Old Notes were to mature on April 1, 2018 and were not redeemable at our option prior to April 1, 2013. The Old Notes were issued at a discount and, accordingly, at the date of their distribution, the Old Notes had a carrying value of $539.8 million (principal amount at maturity of $551.0 million less discount of $11.2 million). Following the filing of the Chapter 11 Cases, $9.9 million of discount on the Pre-Petition Notes was written off in order to adjust the carrying amount of our pre-petition debt to the Bankruptcy Court approved amount of the allowed claims for our pre-petition debt.

Pursuant to our offer to exchange the Old Notes for the New Notes (the “Exchange Offer”), on July 29, 2009, we exchanged $439.6 million in aggregate principal amount of the Old Notes (which amount was equal to approximately 83% of the then outstanding Old Notes) for $458.5 million in aggregate principal amount of the New Notes (which amount included New Notes issued to tendering noteholders as payment for accrued and unpaid interest on the exchanged Old Notes up to, but not including, the July 29, 2009 settlement date of the Exchange Offer).

On the Effective Date, all outstanding obligations under the Pre-Petition Notes and the indentures governing the Pre-Petition Notes were terminated.

Other Pre-Petition Agreements

As a condition to the approval of the Merger and related transactions by state regulatory authorities we agreed to make certain capital expenditures following the completion of the Merger. The Merger Orders have been modified by Regulatory Settlements agreed to with representatives for each of Maine, New Hampshire and Vermont, and approved by the applicable regulatory authorities in Maine, New Hampshire and Vermont, and approved by the Bankruptcy Court as part of the Plan. For a description of these capital expenditure requirements, see “Item 1. – Business – Regulatory Environment – State Regulation – Regulatory Conditions to the Merger, as Modified in Connection with the Plan.”

On January 30, 2009, we entered into the Transition Agreement with Verizon in connection with the Cutover of certain back-office systems, as contemplated by the Transition Services Agreement. The Transition Services Agreement and related agreements had required us to make payments totaling approximately $45.4 million to Verizon in the first quarter of 2009, including a one-time fee of $34.0 million due at Cutover, with the balance related to the purchase of certain Internet access hardware. The settlement set forth in the Transition Agreement resulted in a $22.7 million improvement in our cash flow for the year ended December 31, 2009.

Off-Balance Sheet Arrangements

We do not have any off-balance sheet arrangements.

Summary of Contractual Obligations

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

The following table discloses aggregate information about our contractual obligations as of December 31, 2011 and the periods in which payments are due:

	Payments due by period				
	Total	Less than 1 year	1-3 years	3-5 years	More than 5 years
	(Dollars in thousands)				
Contractual obligations:					
Long-term debt, including current maturities	$ 1,000,000	$ 10,000	$ 35,000	$ 955,000	$ —
Interest payments on long-term debt obligations (a)	254,688	65,226	128,136	61,326	—
Capital lease obligations	4,776	1,679	2,992	105	—
Operating leases	32,380	9,871	14,551	5,701	2,257
Total obligations	$1,291,844	$86,776	$180,679	$1,022,132	$2,257

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

On the Effective Date our Pre-Petition Credit Facility and our DIP Facility were terminated and we entered into the Credit Agreement. At December 31, 2011, our long-term debt obligations totaled $1,000.0 million. In addition, as of December 31, 2011 we had letters of credit totaling $12.4 million outstanding under the Revolving Facility.

Critical Accounting Policies and Estimates

Our accounting policies are more fully described in the notes to our consolidated financial statements contained in Item 8 hereof. As disclosed in note 3 to our consolidated financial statements, the preparation of our financial statements in conformity with U.S. generally accepted accounting principles (“GAAP”) requires management to make estimates and assumptions about future events that affect the amounts reported in our consolidated financial statements and accompanying notes. Actual results could differ significantly from those estimates. We believe that the following discussion addresses our most critical accounting policies, which are those that are most important to the portrayal of our financial condition and results of operations and require management’s most difficult, subjective and complex judgments. Our critical accounting policies are as follows:

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

Fresh Start Accounting. Upon the Effective Date, we applied fresh start accounting principles in accordance with guidance under the applicable reorganization accounting rules. With the exception of deferred taxes and assets and liabilities associated with pension and post-retirement health plans, all Successor Company assets and non-interest bearing liabilities are recorded at their estimated fair values upon the Effective Date. The fair value estimates for property, plant and equipment were based on various valuation methods, including but not limited to, the market approach, the indirect cost approach, the direct replacement cost approach and the "percent of cost" market approach. The fair value estimates of identifiable assets were based on the cost method for our customer lists and the relief from royalty for our trade name.

We also recorded the Successor Company debt and equity at fair value utilizing the total enterprise value of approximately $1.5 billion, which was determined in conjunction with the confirmation of the Plan in part based on a set of financial projections for the Successor Company. The calculation of the enterprise value was dependent upon achieving the estimated future financial results set forth in our projections, as well as the realization of certain other assumptions.

Our actual performance against these projections and assumptions made in applying fresh start accounting could result in an impairment of the value attributed to our long-lived assets, including goodwill and the trade name, on the Effective Date. In fact, as further discussed in our accounting policy of the valuation for long-lived assets, including goodwill below, an impairment to goodwill and our trade name was recorded at September 30, 2011. Although an impairment charge could have a material effect on our results of operations, this non-cash expense would have no impact on our compliance with the covenants contained in the Credit Agreement.

Revenue Recognition. We recognize service revenues based upon usage of our local exchange network and facilities and contract fees. Fixed fees for voice services, Internet services and certain other services are recognized in the month the service is provided. Revenue from other services that are not fixed fee or that exceed contracted amounts is recognized when those services are provided. Non-recurring customer activation fees, along with the related costs up to, but not exceeding, the activation fees, are deferred and amortized over the customer relationship period. SQI penalties and certain PAP penalties are recorded as a reduction to revenue. SQI penalties for Maine, New Hampshire and Vermont are recorded to other accrued liabilities on the consolidated balance sheets. PAP penalties for Maine and New Hampshire are recorded as a reduction to accounts receivable since these penalties are paid by the Company in the form of credits applied to the CLEC bills. PAP penalties in Vermont are recorded to other accrued liabilities as a majority of these penalties are paid to the Vermont Universal Service Fund, while the remaining credits assessed in Vermont are paid by the Company in the form of credits applied to CLEC bills. All SQI and Vermont PAP penalties related to the Predecessor Company are recorded to the Claims Reserve at December 31, 2011 and to liabilities subject to compromise at December 31, 2010.

We make estimated adjustments, as necessary, to revenue or accounts receivable for billing errors, including certain disputed amounts.

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

On the Effective Date, the accounts receivable balances were valued at fair value using the net realizable value approach. The net realizable value approach was determined by reducing the gross receivable balance by our allowance for doubtful accounts. Due to the relatively short collection period, the net realizable value approach was determined to result in a reasonable indication of fair value of the assets.

Accounting for Pension and Other Post-retirement Benefits. Some of our employees participate in our pension plans and other post-retirement healthcare plans. In the aggregate, the benefit obligations of the pension plans and the benefit obligations of the post-retirement healthcare plans each exceed the fair value of their respective assets, resulting in expense. Significant pension and other post-retirement healthcare plan assumptions, including the discount rate used, the long-term rate-of-return on plan assets, and medical cost trend rates are periodically updated and impact the amount of benefit plan income, expense, assets and obligations reflected in our consolidated financial statements. The actuarial assumptions we used in determining our pension and post-retirement healthcare plans obligations may differ materially from actual results due to changing market and economic conditions, higher or lower withdrawal rates or longer or shorter life spans of participants. While we believe that the assumptions used are appropriate, differences in actual experience or changes in assumptions might materially affect our financial position or results of operations.

Our pension and post-retirement liabilities are highly sensitive to changes in the discount rate. We currently estimate that a movement of 1% in the discount rate would change our pension plan benefit obligations by approximately 19%. We currently estimate that a 1% fluctuation in the discount rate would change our post-retirement healthcare benefit obligations by approximately 23%.

The post-retirement healthcare benefit obligations are also highly sensitive to the medical trend rate assumption. A 1% increase in the medical trend rate assumed for post-retirement healthcare benefits at December 31, 2011 would result in an increase in the post-retirement healthcare benefit obligations of approximately $134.1 million and a 1% decrease in the medical trend rate assumed at December 31, 2011 would result in a decrease in the post-retirement healthcare benefit obligations of approximately $101.1 million.

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

Depreciation of Property, Plant and Equipment. We recognize depreciation on property, plant and equipment principally on the composite group remaining life method and straight-line composite rates over estimated useful lives ranging from three to 50 years. This method provides for the recognition of the cost of the remaining net investment in telephone plant, less anticipated net salvage value (if any), over the remaining asset lives. This method requires the periodic revision of depreciation rates. We review the depreciable lives annually. Changes in the estimated useful lives of property, plant and equipment or depreciation methods could have a material effect on our results of operations. However, a change in this non-cash expense would have no impact on our compliance with the covenants contained in the Credit Agreement.

Stock-based Compensation. Compensation expense for share-based awards made to employees and directors are recognized based on the estimated fair value of each award over the award's vesting period. We estimate the fair value of share-based payment awards on the date of grant using either an option-pricing model for stock options or the closing market value of our stock for restricted stock, and expense the value of the portion of the award that is ultimately expected to vest over the requisite service period in the statement of operations.

We utilize the Black-Scholes option pricing model to calculate the fair value of our stock option grants. The key assumptions used in the Black-Scholes option pricing model are the expected life of the stock option, the expected dividend rate, the risk-free interest rate and expected volatility. The expected life of the stock options granted represents the period of time that the options are expected to be outstanding. The risk-free interest rates are based on United States Treasury yields in effect at the date of grant consistent with the expected exercise timeframes. The expected volatility reflects the historical volatility for a duration consistent with the contractual life of the options. Given the lack of historical data of employee behavior and our company, our assumptions of these key inputs in addition to our assumption made about the portion of the awards that will ultimately vest requires subjective judgment.

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

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

At December 31, 2011, we have no goodwill and $138.6 million of gross intangible assets related to customer relationships, the FairPoint trade name and favorable leasehold agreements as of December 31, 2011. The customer relationships and favorable leasehold agreements are being amortized over a weighted average life of approximately 9.0 years and 2.7 years, respectively. As of December 31, 2011, there is $10.4 million of accumulated amortization recorded. The trade name has an indefinite life and is, therefore, not amortized. The intangible assets are included in intangible assets on our consolidated balance sheet. In addition, we have recorded $1.9 billion of gross property, plant and equipment as of December 31, 2011, net of $280.5 million accumulated depreciation. These assets are depreciated over lives ranging from three to 50 years.

As of December 31, 2010, as a result of changes to our financial projections related to the Chapter 11 Cases, we determined that a possible impairment of our long-lived assets – the property, plant and equipment and customer relationships of the Predecessor Company – was indicated. In accordance with the guidance related to impairment of long-lived assets, we performed recoverability tests, based on undiscounted projected future cash flows associated with our long-lived assets, and determined that long-lived assets were not impaired at December 31, 2010.

At September 30, 2011, given the significant sustained decline in our stock price since the Effective Date and the September 30, 2011 impairment of goodwill and the FairPoint trade name, as further described below, we determined that a possible impairment of our long-lived assets – the property, plant and equipment, customer relationships and favorable leasehold agreements – was present. However, we concluded that long-lived assets were recoverable based on the Company's estimated gross cash flows being greater than the carrying value.

As of December 31, 2011, we performed our routine review of impairment triggering events specified by the guidance related to impairment of long-lived assets and concluded that we do not believe a triggering event has occurred.

Goodwill impairment is determined using a two-step process. Step one compares the estimated fair value of our single wireline reporting unit (calculated using both the market approach and the income approach) to its carrying amount, including goodwill. The market approach compares our fair value, as measured by our market capitalization, to our carrying amount, which represents our stockholders' equity balance. The income approach is based upon projected future cash flows discounted to present value using factors that consider the timing and risk associated with the future cash flows. The fair value of the Company's single wireline reporting unit was estimated using a probability weighted scenario of future cash flow projections based on management's long range estimates of market conditions over a multiple year horizon. An estimated growth rate was used to arrive at an estimated terminal value. A discount rate was based upon a cost of capital calculated using various inputs, such as the risk-free rate, equity risk premium, size premium, company specific premium, etc., as of the date of the goodwill impairment test.

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

At October 1, 2010, we performed step one of our annual goodwill impairment assessment and concluded that there was no indication of impairment at that time.

At September 30, 2011, given the significant sustained decline in our stock price since the Effective Date which had caused our market capitalization to be below our book value, we determined that a possible impairment of goodwill was indicated and concluded that an interim goodwill impairment test was necessary. In step one, we calculated the discounted cash flows to arrive at a fair value, which was then compared to the carrying value, including goodwill. A combination of expected cash flows and higher discount rates resulted in the fair value, using the discounted cash flow method, being less than the carrying value, at which point we proceeded to step two, as outlined above. Results of the impairment test required us to record an impairment charge reducing the carrying value of the goodwill to zero at September 30, 2011. This non-cash impairment charge had no impact on our compliance with the covenants contained in the Credit Agreement.

Our only non-amortizable intangible asset other than goodwill is the FairPoint trade name. Consistent with the valuation methodology used to value the trade name at the Effective Date, we assessed the fair value of the trade name based on the relief from royalty method. If the carrying amount of our trade name exceeds its estimated fair value, the asset is considered impaired. For our non-amortizable intangible asset impairment assessments of the FairPoint trade name, we made certain assumptions including an estimated royalty rate, a long-term growth rate, an effective tax rate and a discount rate, and applied these assumptions to projected future cash flows, exclusive of cash flows associated with wholesale revenues as these revenues are not generated through brand recognition. Changes in one or more of these assumptions may result in the recognition of an impairment loss different from what was actually recorded.

We performed our annual non-amortizable intangible asset impairment assessment as of October 1, 2010 and concluded that there was no indication of impairment at that time. As of December 31, 2010, as a result of changes to our financial projections related to the Chapter 11 Cases, we determined that a possible impairment of our non-amortizable intangible assets was indicated. We performed an interim non-amortizable intangible asset impairment assessment as of December 31, 2010 and determined that our trade name was not impaired.

At September 30, 2011, given that the significant sustained decline in our stock price since the Effective Date had caused its market capitalization to be below its book value, we determined that a possible impairment of the FairPoint trade name was indicated and concluded that an interim non-amortizable intangible asset impairment test on the trade name was necessary. Results of the impairment test required us to record an impairment charge totaling $18.8 million at September 30, 2011. Since this interim impairment test was performed on the last day of the 2011 third fiscal quarter, it effectively serves as our annual non-amortizable intangible asset impairment test for the fiscal year.

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

New Accounting Standards

In June 2011, the FASB issued ASU 2011-05 related to the presentation of comprehensive income which eliminates the option to present the components of other comprehensive income as part of the statement of changes in stockholders' equity. This ASU requires that all non-owner changes in stockholders' equity be presented in either a single continuous statement of comprehensive income or in two separate but consecutive statements. This new guidance is to be applied retrospectively, and is effective for interim and annual periods beginning after December 15, 2011, with early adoption permitted. In December 2011, the FASB issued ASU 2011-12 which deferred the elective date for amendments to the presentation of reclassification of items out of accumulated other comprehensive income in ASU 2011-05. We do not expect this amendment to the ASC to have a material impact on our consolidated financial statements.

In May 2011, the FASB issued ASU 2011-04 related to achieving common fair value measurements and disclosure requirements between U.S. GAAP and International Financial Reporting Standards ("IFRS"). This ASU changes the wording used to describe many of the requirements in U.S. GAAP for measuring fair value and for disclosing information about fair value measurements to ensure consistency between U.S. GAAP and IFRS. The ASU also expands the disclosures for fair value measurements that are estimated using significant unobservable (Level 3) inputs. This new guidance is to be applied prospectively, and is effective for interim and annual periods beginning after December 15, 2011. Early adoption is not permitted. We do not expect the adoption of this amendment to the ASC to have a material impact on our consolidated financial statements.

On January 1, 2011, we adopted ASU 2010-28 regarding when to perform step 2 of the goodwill impairment test for reporting units with zero or negative carrying amounts. This ASU modifies step 1 of the goodwill impairment test for reporting units with zero or negative carrying amounts. For those reporting units, an entity is required to perform step 2 of the goodwill impairment test if it is more likely than not that a goodwill impairment exists. In determining whether it is more likely than not that a goodwill impairment exists, an entity should consider whether there are any adverse qualitative factors indicating an impairment may exist. The qualitative factors are consistent with the previously existing guidance, which required that goodwill of a reporting unit be tested for impairment between annual tests if an event occurs or circumstances change that would more likely than not reduce the fair value of a reporting unit below its carrying amount. For public entities, the amendments in this ASU are effective for fiscal year, and interim periods within those years, beginning after December 15, 2010. The adoption of this amendment to the ASC did not have a material impact on our consolidated financial statements.

In October 2009, the FASB issued ASU 2009-13 regarding revenue recognition for multiple deliverable arrangements. This method allows a vendor to allocate revenue in an arrangement using its best estimate of selling price if neither vendor specific objective evidence nor third party evidence of selling price exists. Accordingly, the residual method of revenue allocation will no longer be permissible. This ASU must be adopted no later than the beginning of the first fiscal year beginning on or after June 15, 2010. The adoption of this amendment to the ASC did not have a material impact on our consolidated financial statements.

Inflation

There are cost of living adjustment clauses in certain of the collective bargaining agreements covering our labor union employees. Considerable fluctuations in cost of living due to inflation could result in an adverse effect on our operations.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

As of December 31, 2011, we had total debt of $1,000.0 million, consisting of variable rate debt with an interest rate of 6.50% per annum, including applicable margins. As of December 31, 2011, the fair value of our debt was approximately $795.0 million based on the market prices of our debt at that date. Our Credit Agreement Loans mature in 2016, provided that on the third anniversary of the Effective Date, we must elect (subject to the absence of events of default under the Credit Agreement) to continue the maturity of the Revolving Facility and must pay a continuation fee of $0.75 million and, on the fourth anniversary of the Effective Date, we must elect (subject to the absence of events of default under the Credit Agreement) to continue the maturity of the Revolving Facility and must pay a second continuation fee of $0.75 million.

As of December 31, 2011, we had $62.6 million, net of $12.4 million outstanding letters of credit, available for additional borrowing under our Revolving Facility. Interest payments on the Term Loan are subject to a LIBOR floor of 2.00%. While LIBOR remains below 2.00% we will incur interest costs above market rates.

We use variable rate debt to finance our operations, capital expenditures and acquisitions. The variable rate debt obligations expose us to variability in interest payments due to changes in interest rates. We believe it is prudent to limit the variability of a portion of our interest payments. To meet this objective, from time to time, we may enter into interest rate swap agreements to manage fluctuations in cash flows resulting from interest rate risk.

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

We are also exposed to market risk from changes in the fair value of our pension plan assets and from changes to rates at which benefit payments are discounted. For the year ended December 31, 2011, the actual gain on the pension plan assets was approximately 1.6%. Net periodic benefit cost for 2011 assumes a weighted average annualized expected return on plan assets of approximately 8.3%. Lower returns on plan assets and lower discount rates could negatively impact the funded status of the plan and we may be required to contribute additional funds to the pension plan.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

INDEX TO FINANCIAL STATEMENTS

Report of Management on Internal Control Over Financial Reporting

We, the management of FairPoint Communications, Inc., are responsible for establishing and maintaining adequate internal control over financial reporting of the Company. Management has evaluated internal control over financial reporting of the Company using the criteria for effective internal control established in *Internal Control–Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

Based on such evaluation, management determined that the Company's internal control over financial reporting was not effective as of December 31, 2011 because the following material weakness in internal control over financial reporting existed during 2011:

- Procedures for the review of our income tax provision and supporting schedules were not adequate to identify and correct errors in a timely manner.

Ernst & Young, LLP, our independent registered public accounting firm who audited the financial statements included in this Annual Report, has issued an attestation report on the Company's internal control over financial reporting. This report appears on the following page.

/s/ Paul H. Sunu

Paul H. Sunu
Chief Executive Officer

/s/ Ajay Sabherwal

Ajay Sabherwal
Executive Vice President and Chief Financial Officer

Report of Independent Registered Public Accounting Firm

The Board of Directors and Shareholders of FairPoint Communications, Inc.

We have audited FairPoint Communications, Inc.'s internal control over financial reporting as of December 31, 2011, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). FairPoint Communications, Inc.'s management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Report of Management on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

A material weakness is a deficiency, or combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the company's annual or interim financial statements will not be prevented or detected on a timely basis. The following material weakness has been identified and included in management's assessment. Management has identified a material weakness in controls related to the Company's review of its income tax provision. We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of FairPoint Communications, Inc. as of December 31, 2011 (Successor) and 2010 (Predecessor), and the related consolidated statements of operations, stockholders' equity (deficit), comprehensive (loss) income and cash flows for the period from January 25, 2011 to December 31, 2011 (Successor), the period from January 1, 2011 to January 24, 2011 (Predecessor), and the years ended December 31, 2010 and 2009 (Predecessor). This material weakness was considered in determining the nature, timing and extent of audit tests applied in our audit of the 2011 financial statements and this report does not affect our report dated March 9, 2012, which expressed an unqualified opinion on those financial statements

In our opinion, because of the effect of the material weakness described above on the achievement of the objectives of the control criteria, FairPoint Communications, Inc. has not maintained effective internal control over financial reporting as of December 31, 2011, based on the COSO criteria.

Ernst & Young LLP

Charlotte, NC
March 9, 2012

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Stockholders of FairPoint Communications, Inc.

We have audited the accompanying consolidated balance sheets of FairPoint Communications, Inc. (the Company) as of December 31, 2011 (Successor) and 2010 (Predecessor), and the related consolidated statements of operations, stockholders' equity (deficit), comprehensive (loss) income and cash flows for the period from January 25, 2011 to December 31, 2011 (Successor), the period from January 1, 2011 to January 24, 2011 (Predecessor), and the years ended December 31, 2010 and 2009 (Predecessor). These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of FairPoint Communications, Inc. at December 31, 2011 (Successor) and 2010 (Predecessor), and the consolidated results of its operations and its cash flows for the period from January 25, 2011 to December 31, 2011 (Successor), the period from January 1, 2011 to January 24, 2011 (Predecessor), and the years ended December 31, 2010 and 2009 (Predecessor), in conformity with US generally accepted accounting principles.

As discussed in Notes 1 and 2 to the consolidated financial statements, on January 13, 2011, the Bankruptcy Court entered an order confirming the plan of reorganization, which became effective on January 24, 2011. Accordingly, the accompanying consolidated financial statements have been prepared in conformity with Accounting Standards Codification 852-10, Reorganizations, for the Successor Company as a new entity with assets, liabilities and a capital structure having carrying amounts not comparable with prior periods as described in Notes 1 and 2.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), FairPoint Communications, Inc.'s internal control over financial reporting as of December 31, 2011 (Successor), based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated March 9, 2012 expressed an adverse opinion thereon.

/s/ Ernst & Young LLP

Charlotte, North Carolina
March 9, 2012

Table of Contents

FAIRPOINT COMMUNICATIONS, INC. AND SUBSIDIARIES
Consolidated Balance Sheets
December 31, 2011 and 2010
(in thousands, except share data)

	Successor Company December 31, 2011	Predecessor Company December 31, 2010
Assets		
Current assets:		
Cash	$ 17,350	$ 105,497
Restricted cash	24,446	2,420
Accounts receivable, net	104,298	125,170
Materials and supplies	935	22,193
Prepaid expenses	18,346	18,841
Other current assets	2,377	6,092
Deferred income tax, net	17,915	31,400
Total current assets	**185,667**	**311,613**
Property, plant and equipment, net	1,663,065	1,859,700
Goodwill	—	595,120
Intangible assets, net	128,145	189,247
Prepaid pension asset	—	2,960
Debt issue costs, net	1,779	119
Restricted cash	651	1,678
Other assets	10,338	13,357
Total assets	**$ 1,989,645**	**$ 2,973,794**
Liabilities and Stockholders' Deficit		
Liabilities not subject to compromise:		
Current portion of long-term debt	$ 10,000	$ —
Current portion of capital lease obligations	1,252	1,321
Accounts payable	65,184	66,557
Claims payable and estimated claims accrual	22,839	—
Accrued interest payable	508	3
Other accrued liabilities	54,348	63,279
Total current liabilities	**154,131**	**131,160**
Capital lease obligations	2,690	3,943
Accrued pension obligation	157,961	92,246
Employee benefit obligations	531,634	344,463
Deferred income taxes	245,369	67,381
Unamortized investment tax credits	—	4,310
Other long-term liabilities	14,003	12,398
Long-term debt, net of current portion	990,000	—
Total long-term liabilities	**1,941,657**	**524,741**
Total liabilities not subject to compromise	**2,095,788**	**655,901**
Liabilities subject to compromise	—	2,905,311
Total liabilities	**2,095,788**	**3,561,212**
Commitments and contingencies (See Note 21)		
Stockholders' deficit:		
Predecessor Company common stock, $0.01 par value, 200,000,000 shares authorized, 89,440,334 shares issued and outstanding at December 31, 2010	—	894
Additional paid-in capital, Predecessor Company	—	725,786
Successor Company common stock, $0.01 par value, 37,500,000 shares authorized, 26,197,142 shares issued and outstanding at December 31, 2011	262	—
Additional paid-in capital, Successor Company	502,034	—
Retained deficit	(414,945)	(1,101,294)
Accumulated other comprehensive loss	(193,494)	(212,804)
Total stockholders' deficit	**(106,143)**	**(587,418)**
Total liabilities and stockholders' deficit	**$ 1,989,645**	**$ 2,973,794**

See accompanying notes to consolidated financial statements.

Table of Contents

FAIRPOINT COMMUNICATIONS, INC. AND SUBSIDIARIES
Consolidated Statements of Operations
341 Days ended December 31, 2011, 24 Days ended January 24, 2011
and Years ended December 31, 2010 and 2009
(in thousands, except per share data)

	Successor Company	Predecessor Company		
	Three Hundred Forty-One Days Ended December 31, 2011	Twenty-Four Days Ended January 24, 2011	Year Ended December 31, 2010	Year Ended December 31, 2009
Revenues	**$ 963,112**	**$ 66,378**	**$ 1,070,986**	**$ 1,119,090**
Operating expenses:				
Cost of services and sales, excluding depreciation and amortization	438,619	38,766	525,728	515,394
Selling, general and administrative expense, excluding depreciation and amortization	332,020	27,161	365,373	417,512
Depreciation and amortization	336,891	21,515	289,824	275,334
Reorganization related (income) expense	(232)	—	—	—
Impairment of intangible assets and goodwill	262,019	—	—	—
Total operating expenses	**1,369,317**	**87,442**	**1,180,925**	**1,208,240**
Loss from operations	**(406,205)**	**(21,064)**	**(109,939)**	**(89,150)**
Other income (expense):				
Interest expense	(63,807)	(9,321)	(140,896)	(204,919)
Gain on derivative instruments	—	—	—	12,320
Gain on early retirement of debt	—	—	—	12,357
Other	1,791	(132)	2,715	2,000
Total other expense	(62,016)	(9,453)	(138,181)	(178,242)
Loss before reorganization items and income taxes	**(468,221)**	**(30,517)**	**(248,120)**	**(267,392)**
Reorganization items	—	897,313	(41,120)	(53,018)
(Loss) income before income taxes	**(468,221)**	**866,796**	**(289,240)**	**(320,410)**
Income tax benefit (expense)	53,276	(279,889)	7,661	79,014
Net (loss) income	**$ (414,945)**	**$ 586,907**	**$ (281,579)**	**$ (241,396)**
Weighted average shares outstanding:				
Basic	25,838	89,424	89,424	89,271
Diluted	25,838	89,695	89,424	89,271
(Loss) earnings per share:				
Basic	$ (16.06)	$ 6.56	$ (3.15)	$ (2.70)
Diluted	$ (16.06)	$ 6.54	$ (3.15)	$ (2.70)

See accompanying notes to consolidated financial statements.

Table of Contents

FAIRPOINT COMMUNICATIONS, INC. AND SUBSIDIARIES
Consolidated Statements of Comprehensive (Loss) Income
341 Days ended December 31, 2011, 24 Days ended January 24, 2011
and Years ended December 31, 2010 and 2009
(in thousands)

	Successor Company	Predecessor Company		
	Three Hundred Forty-One Days Ended December 31, 2011	Twenty-Four Days Ended January 24, 2011	Year Ended December 31, 2010	Year Ended December 31, 2009
Net (loss) income	**$ (414,945)**	**$ 586,907**	**$(281,579)**	**$(241,396)**
Other comprehensive (loss) income, net of taxes:				
Defined benefit pension and post-retirement plans (net of $39.1 million tax benefit, $0.5 million tax expense, $4.6 million tax expense and $5.4 million tax expense, respectively)	(193,494)	493	(87,880)	9,580
Total other comprehensive (loss) income	**(193,494)**	**493**	**(87,880)**	**9,580**
Comprehensive (loss) income	**$ (608,439)**	**$ 587,400**	**$ (369,459)**	**$(231,816)**

See accompanying notes to consolidated financial statements.

FAIRPOINT COMMUNICATIONS, INC. AND SUBSIDIARIES
Consolidated Statement of Stockholders' Equity (Deficit)
341 Days ended December 31, 2011, 24 Days ended January 24, 2011
and Years ended December 31, 2010 and 2009
(in thousands)

	Common Stock Shares	Common Stock Amount	Additional paid-in capital	Retained earnings (deficit)	Accumulated other comprehensive (loss) income	Total stockholders' equity (deficit)
Balance at December 31, 2008 (Predecessor Company)	**88,996**	**$ 890**	**$ 735,719**	**$ (578,319)**	**$ (134,504)**	**$ 23,786**
Net loss	—	—	—	(241,396)	—	(241,396)
Issuance of 2008 Interim Awards	502	5	(5)	—	—	—
Issuance of restricted shares	524	5	(5)	—	—	—
Restricted stock cancelled for withholding tax	(20)	—	—	—	—	—
Restricted units cancelled for withholding tax	—	—	(430)	—	—	(430)
Stock based compensation expense	—	—	2,052	—	—	2,052
Net assets contributed back to Verizon	—	—	(12,019)	—	—	(12,019)
Employee benefit adjustment to comprehensive income	—	—	—	—	9,580	9,580
Balance at December 31, 2009 (Predecessor Company)	**90,002**	**$ 900**	**$ 725,312**	**$ (819,715)**	**$ (124,924)**	**$ (218,427)**
Net loss	—	—	—	(281,579)	—	(281,579)
Restricted stock cancelled for withholding tax	(13)	—	—	—	—	—
Forfeiture of restricted shares	(549)	(6)	6	—	—	—
Stock based compensation expense	—	—	468	—	—	468
Employee benefit adjustment to comprehensive income	—	—	—	—	(87,880)	(87,880)
Balance at December 31, 2010 (Predecessor Company)	**89,440**	**$ 894**	**$ 725,786**	**$(1,101,294)**	**$ (212,804)**	**$ (587,418)**
Net income	—	—	—	586,907	—	586,907
Stock based compensation expense	—	—	18	—	—	18
Employee benefit adjustment to comprehensive income	—	—	—	—	493	493
Cancellation of Predecessor Company Common Stock	(89,440)	(894)	(725,804)	726,698	—	—
Elimination of Predecessor Company accumulated other comprehensive loss	—	—	—	(212,311)	212,311	—
Issuance of Successor Company Common Stock	25,660	257	481,879	—	—	482,136
Issuance of Successor Company warrants	—	—	16,350	—	—	16,350
Balance at January 24, 2011 (Successor Company)	**25,660**	**$ 257**	**$ 498,229**	**$ —**	**$ —**	**$ 498,486**
Net loss	—	—	—	(414,945)	—	(414,945)
Issuance of Common Stock	541	5	(5)	—	—	—
Issuance of restricted stock	14	—	—	—	—	—
Forfeiture of restricted stock	(18)	—	—	—	—	—
Stock based compensation expense	—	—	3,810	—	—	3,810
Employee benefit adjustment to comprehensive income	—	—	—	—	(193,494)	(193,494)
Balance at December 31, 2011 (Successor Company)	**26,197**	**$ 262**	**$ 502,034**	**$ (414,945)**	**$ (193,494)**	**$ (106,143)**

See accompanying notes to consolidated financial statements.

Table of Contents

FAIRPOINT COMMUNICATIONS, INC. AND SUBSIDIARIES
Consolidated Statements of Cash Flows
341 Days ended December 31, 2011, 24 Days ended January 24, 2011 and the Years ended December 31, 2010 and 2009
(in thousands)

	Successor Company	Predecessor Company		
	Three Hundred Forty-One Days Ended December 31, 2011	Twenty-Four Days Ended January 24, 2011	Year Ended December 31, 2010	Year Ended December 31, 2009
Cash flows from operating activities:				
Net (loss) income	$ (414,945)	$ 586,907	$ (281,579)	$ (241,396)
Adjustments to reconcile net income to net cash provided by (used in) operating activities:				
Deferred income taxes	(52,203)	279,868	(7,915)	(78,722)
Provision for uncollectible revenue	18,344	3,454	20,525	48,402
Depreciation and amortization	336,891	21,515	289,824	275,334
Non-cash interest expense	—	—	—	31,137
Post-retirement accruals	35,183	2,654	33,216	34,151
Pension accruals	5,021	986	10,017	24,274
Gain on derivative instruments	—	—	—	(12,320)
Gain on early retirement of debt, excluding cash fees	—	—	—	(12,477)
Loss on abandoned projects	—	—	15,132	—
Impairment of intangible assets and goodwill	262,019	—	—	—
Other non-cash items	(288)	97	4,045	4,468
Changes in assets and liabilities arising from operations:				
Accounts receivable	7,863	(7,752)	12,706	(24,799)
Prepaid and other assets	(1,926)	(3,423)	(6,834)	19,063
Accounts payable and accrued liabilities	(12,303)	26,627	(10,802)	(12,435)
Accrued interest payable	508	9,017	137,111	61,312
Other assets and liabilities, net	67	177	(3,816)	(9,633)
Reorganization adjustments:				
Non-cash reorganization income	(7,308)	(917,358)	(20,004)	43,964
Claims payable and estimated claims accrual	(66,712)	(1,096)	—	—
Restricted cash - cash claims reserve	59,888	(82,764)	—	—
Total adjustments	585,044	(667,998)	473,205	391,719
Net cash provided by (used in) operating activities	170,099	(81,091)	191,626	150,323
Cash flows from investing activities:				
Net capital additions	(163,648)	(12,477)	(197,795)	(178,752)
Distributions from investments	798	—	527	1,361
Net cash used in investing activities	(162,850)	(12,477)	(197,268)	(177,391)
Cash flows from financing activities:				
Loan origination costs	(884)	(1,500)	(1,475)	(3,046)
Proceeds from issuance of long-term debt	—	—	5,513	50,000
Repayments of long-term debt	—	—	—	(20,848)
Restricted cash	1,843	34	(62)	65,114
Repayment of capital lease obligations	(1,120)	(201)	(2,192)	(2,126)
Dividends paid to stockholders	—	—	—	(22,996)
Net cash (used in) provided by financing activities	(161)	(1,667)	1,784	66,098
Net change	7,088	(95,235)	(3,858)	39,030
Cash, beginning of period	10,262	105,497	109,355	70,325
Cash, end of period	$ 17,350	$ 10,262	$ 105,497	$ 109,355
Supplemental disclosure of cash flow information:				
Interest paid, net of capitalized interest	62,290	—	1,005	106,861
Income tax paid, net of refunds	218	—	361	(563)
Non-cash issuance of Senior Notes	—	—	—	18,911
Capital additions included in accounts payable, claims payable and estimated claims accrual or liabilities subject to compromise at period-end	854	1,818	1,961	31,621
Reorganization costs paid	20,069	11,110	41,699	1,182

See accompanying notes to consolidated financial statements.

FairPoint Communications, Inc. and Subsidiaries
Notes to Consolidated Financial Statements

Except as otherwise required by the context, references in notes to the consolidated financial statements to:

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

(1) Organization, Principles of Consolidation and Basis of Financial Reporting

Organization

FairPoint is a leading provider of communications services in rural and small urban communities offering an array of services, including high speed data ("HSD"), Internet access, voice, television and broadband product offerings, to residential, business and wholesale customers. FairPoint operates in 18 states with approximately 1.3 million access line equivalents (including voice access lines and HSD, which includes digital subscriber lines ("DSL"), wireless broadband, cable modem and fiber-to-the-premises) as of December 31, 2011.

Principles of Consolidation

The consolidated financial statements include all majority-owned subsidiaries of the Company. Partially owned equity affiliates are accounted for under the cost method or equity method when we demonstrate significant influence, but do not have a controlling financial interest. Intercompany accounts and transactions have been eliminated.

Basis of Financial Reporting in Reorganization

On October 26, 2009 (the "Petition Date"), the Company and substantially all of its direct and indirect subsidiaries (collectively, the "Debtors") filed voluntary petitions for relief under chapter 11 of title 11 of the United States Code (the "Bankruptcy Code" or "Chapter 11") in the United States Bankruptcy Court for the Southern District of New York (the "Bankruptcy Court"). The cases are being jointly administered under the caption *In re FairPoint Communications, Inc.*, Case No. 09-16335 (the "Chapter 11 Cases"). On January 13, 2011, the bankruptcy judge confirmed the Company's Third Amended Joint Plan of Reorganization Under Chapter 11 of the Bankruptcy Code (as confirmed, the "Plan") and on January 24, 2011 (the "Effective Date") the Company emerged from Chapter 11 protection. On June 30, 2011, the Bankruptcy Court entered a final decree closing certain of the Company's bankruptcy cases due to the closed cases being fully administered. See note 2 for details of the remaining open cases.

The Company has applied the Reorganizations Topic of the Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") effective as of the Petition Date. See note 2.

Upon the Effective Date, the Company was required to adopt fresh start accounting in accordance with guidance under the applicable reorganization accounting rules, pursuant to which the Company's reorganization value, which represented the fair value of the entity before considering liabilities and approximated the amount a willing buyer would pay for the assets of the entity immediately after the reorganization, was allocated to the fair value of assets in conformity with guidance under the applicable accounting rules for business combinations, using the purchase method of accounting. The amount remaining after allocation of the reorganization value to the fair value of identified tangible and intangible assets was reflected as goodwill, which was subject to periodic evaluation for impairment and was determined to be entirely impaired at September 30, 2011. See note 3(n) for further details of the goodwill impairment. In addition to fresh start accounting, the Company's post-emergence consolidated financial statements reflect all effects of the transactions contemplated by the Plan. Therefore, the Company's post-emergence consolidated statements of financial position and consolidated statements of operations are not comparable in many respects to the Company's consolidated statements of financial position and consolidated statements of operations for periods prior to the adoption of fresh start accounting and prior to accounting for the effects of the reorganization. See note 2 for a presentation of the impact of emergence from reorganization and fresh start accounting on the Company's financial position.

(2) Reorganization Under Chapter 11

Emergence from Chapter 11 Proceedings

On the Petition Date, the Debtors filed the Chapter 11 Cases.

On January 13, 2011, the Bankruptcy Court entered into an Order Confirming Debtors' Third Amended Joint Plan of Reorganization Under Chapter 11 of the Bankruptcy Code dated as of December 29, 2010 (the "Confirmation Order"), which confirmed the Plan.

On the Effective Date, the Company substantially consummated its reorganization through a series of transactions contemplated by the Plan, and the Plan became effective pursuant to its terms.

On June 30, 2011, the Bankruptcy Court entered a final decree closing certain of the Company's bankruptcy cases due to the closed cases being fully administered. Of the 80 original bankruptcy cases, only five remain open. These cases are FairPoint Communications, Inc. (Case No. 09-16335), Northern New England Telephone Operations LLC (Case No. 09-16365), Telephone Operating Company of Vermont LLC (Case No. 09-16410), MJD Services Corp. (Case No. 09-16366) and Enhanced Communications of Northern New England Inc. (Case No. 09-16349).

Plan of Reorganization

General

The Plan provided for the cancellation and extinguishment on the Effective Date of all of the Company's equity interests outstanding on or prior to the Effective Date, including but not limited to all outstanding shares of the Company's common stock, par value $0.01 per share (the "Old Common Stock"), options and contractual or other rights to acquire any equity interests.

The Plan provided for:

- (i) The lenders under the Credit Agreement, dated as of March 31, 2008, by and among FairPoint Communications, Spinco, Bank of America, N.A. as syndication agent, Morgan Stanley Senior Funding, Inc. and Deutsche Bank Securities Inc., as co-documentation agents, and Lehman Commercial Paper Inc., as administrative agent, and the lenders party thereto (as amended, supplemented or otherwise modified from time to time, the "Pre-Petition Credit Facility"), (ii) the administrative agent under the Pre-Petition Credit Facility (other than certain indemnity and reimbursement rights of the administrative agent which survived) and (iii) holders of other claims against the Company arising under the Pre-Petition Credit Facility or ancillary agreements (including swap agreements) (collectively, the "Pre-Petition Credit Facility Claims") to receive the following in full and complete satisfaction of such Pre-Petition Credit Facility Claims: (i) a pro rata share of a $1,000.0 million term loan facility (the " Term Loan"), (ii) a pro rata share of certain cash payments, (iii) a pro rata share of 23,620,718 shares of our new common stock, par value $0.01 per share (the "New Common Stock" or "Common Stock") and (iv) a pro rata share of a 55% interest in the FairPoint Litigation Trust (the "Litigation Trust");

- Holders of allowed unsecured claims against FairPoint Communications, including the Pre-Petition Notes (as defined below) (the "FairPoint Communications Unsecured Claims") to receive the following in full and complete satisfaction of such FairPoint Communications Unsecured Claims: (i) a pro rata share of 2,101,676 shares of New Common Stock, (ii) a pro rata share of a 45% interest in the Litigation Trust and (iii) a pro rata share of the warrants (the "Warrants") issued by the Company in connection with a Warrant Agreement (the "Warrant Agreement") that the Company entered into with The Bank of New York Mellon, as warrant agent, on the Effective Date; and
- Holders of allowed unsecured claims against the Company's subsidiaries and holders of certain unsecured convenience claims against the Company to receive payment in full in cash in the amount of their allowed claims.

In addition, the Plan also provided for:

- Certain of the Company's employees and a consultant to receive (a) cash bonuses made pursuant to the FairPoint Communications, Inc. 2010 Success Bonus Plan (the "Success Bonus Plan") and/or (b) New Common Stock awards, consisting of restricted shares of New Common Stock and/or options to purchase shares of New Common Stock, pursuant to the terms of the FairPoint Communications, Inc. 2010 Long Term Incentive Plan (the "Long Term Incentive Plan"); and
- Members of the Company's board appointed on the Effective Date (the "New Board") to receive options to purchase New Common Stock pursuant to the terms of the Long Term Incentive Plan.

Finally, the Plan included certain discharges, releases, exculpations and injunctions that became effective on the Effective Date, including the following:

- Except as otherwise provided in the Plan, all existing claims against, and equity interests in, the Company that arose prior to the Effective Date were released, terminated, extinguished and discharged;
- In consideration of the services of the Released Parties (as defined in the Plan), the Company and all persons who held, or may have held, claims against, or equity interests in, the Company prior to the Effective Date released the Released Parties (as defined in the Plan) from claims, causes of action and liabilities related to the Company;
- None of the Company, the Released Parties (as defined in the Plan) or the Litigation Trustee (as defined below) shall have or incur any liability relating to or arising out of the Chapter 11 Cases; and
- Except as otherwise provided in the Plan, all persons are permanently enjoined from asserting claims, liabilities, causes of action, interest or remedies that are released or discharged pursuant to the Plan.

Termination of Material Agreements

On the Effective Date, in accordance with the Plan, the Company terminated, among others, the following material agreements:

- The Pre-Petition Credit Facility (except that the Pre-Petition Credit Facility continues in effect solely for the purposes of allowing creditors under the Pre-Petition Credit Facility to receive distributions under the Plan and to preserve certain rights of the administrative agent), and all notes, security agreements, swap agreements and other agreements associated therewith;
- Each of the respective indentures governing (i) the 13-1/8% Senior Notes due April 1, 2018 (the "Old Notes"), which were issued pursuant to the Indenture, dated as of March 31, 2008, by and between Spinco and U.S. Bank National Association, as amended (the "Old Indenture"), and (ii) the 13-1/8% Senior Notes due April 2, 2018 (the "New Notes" and, together with the Old Notes, the "Pre-Petition Notes"), which were issued pursuant to the Indenture, dated as of July 29, 2009, by and between FairPoint Communications, Inc. and U.S. Bank National Association (the "New Indenture") (except to the extent to allow the Company or the relevant Pre-Petition Notes indenture trustee, as applicable, to make distributions pursuant to the Plan on account of claims related to such Pre-Petition Notes); and
- The Debtor-in-Possession Credit Agreement, dated as of October 27, 2009 (as amended, the "DIP Credit Agreement"), by and among FairPoint Communications and FairPoint Logistics, Inc. ("FairPoint Logistics," and together with FairPoint Communications, the "DIP Borrowers"), certain financial institutions (the "DIP Lenders") and Bank of America, N.A., as the administrative agent for the DIP Lenders (the "DIP Administrative Agent"), which was terminated by its conversion into the new $75.0 million Revolving Facility (as defined herein), and all notes, security agreements and other agreements related to the DIP Credit Agreement.

Credit Agreement

On the Effective Date, FairPoint Communications and FairPoint Logistics (the “Borrowers”) entered into a $1,075.0 million senior secured credit facility with a syndicate of lenders and Bank of America, N.A., as the administrative agent for the lenders, arranged by Banc of America Securities LLC (the “Credit Agreement”). The Credit Agreement is comprised of a $75.0 million revolving loan facility (the “Revolving Facility”), which has a sub-facility providing for the issuance of up to $30.0 million of letters of credit, and the Term Loan (collectively, the “Credit Agreement Loans”). On the Effective Date, the Company paid to the lenders providing the Revolving Facility an aggregate fee equal to $1.5 million. Interest on the Credit Agreement Loans accrues at an annual rate equal to either (a) the British Bankers Association LIBOR Rate (“LIBOR”) plus 4.50%, with a minimum LIBOR floor of 2.00% for the Term Loan, or (b) a base rate plus 3.50% per annum in which base rate is equal to the highest of (x) Bank of America’s prime rate, (y) the federal funds effective rate plus 0.50% and (z) applicable LIBOR (with minimum LIBOR floor of 2.00%) plus 1.00%. In addition, the Company is required to pay a 0.75% per annum commitment fee on the average daily unused portion of the Revolving Facility. The entire outstanding principal amount of the Credit Agreement Loans is due and payable five years after the Effective Date (the “ Maturity Date”); provided that on the third anniversary of the Effective Date, the Company must elect (subject to the absence of events of default under the Credit Agreement) to continue the maturity of the Revolving Facility and must pay a continuation fee of $0.75 million and, on the fourth anniversary of the Effective Date, the Company must elect (subject to the absence of events of default under the Credit Agreement) to continue the maturity of the Revolving Facility and must pay a second continuation fee of $0.75 million. The Credit Agreement requires quarterly repayments of principal of the Term Loan after the first anniversary of the Effective Date. In the second and third years following the Effective Date, such quarterly payments shall each be in an amount equal to $2.5 million; during the fourth year following the Effective Date, such quarterly payments shall each be in an amount equal to $6.25 million; and for the first three quarters during the fifth year following the Effective Date, such quarterly payments shall each be in an amount equal to $12.5 million, with all remaining outstanding amounts owed in respect of the Term Loan being due and payable on the Maturity Date.

The Credit Agreement Loans are guaranteed by all of the Company’s current and future direct and indirect subsidiaries, other than (x) any subsidiary that is prohibited by applicable law from guaranteeing the obligations under the Credit Agreement Loans and/or providing any security therefor without the consent of a state public utilities commission, and (y) any subsidiary of ours that is a controlled foreign corporation or a subsidiary that is held directly or indirectly by a controlled foreign corporation (the guarantor subsidiaries, together with FairPoint Communications and FairPoint Logistics, are collectively referred to as the “Financing Loan Parties”). The Credit Agreement Loans as a whole are secured by liens upon substantially all existing and after-acquired assets of the Financing Loan Parties, with first lien and payment waterfall priority for the Revolving Facility and second lien priority for the Term Loan.

The Credit Agreement contains customary representations, warranties and affirmative covenants. In addition, the Credit Agreement contains restrictive covenants that limit, among other things, the ability of the Company to incur indebtedness, create liens, engage in mergers, consolidations and other fundamental changes, make investments or loans, engage in transactions with affiliates, pay dividends, make capital expenditures and repurchase capital stock. The Credit Agreement also contains minimum interest coverage and maximum total leverage maintenance covenants, along with a maximum senior leverage covenant measured upon the incurrence of certain types of debt. The Credit Agreement contains certain events of default, including failure to make payments, breaches of covenants and representations, cross defaults to other material indebtedness, unpaid and uninsured judgments, changes of control and bankruptcy events of default. The lenders’ commitments to fund amounts under the Revolving Facility are subject to certain customary conditions.

The Credit Agreement also provides for mandatory prepayments of outstanding balances on the Credit Agreement Loans with the proceeds from certain asset dispositions, certain equity and debt issuances, and certain extraordinary cash receipts. Proceeds from such events may be reinvested by the Borrowers in lieu of any such mandatory prepayment under certain circumstances. In addition, at the end of each fiscal year, a test is performed to determine if excess cash flow, as defined in the Credit Agreement, was generated during the year. If the calculation indicates that excess cash flow was generated, a certain percentage (determined by reference to the total leverage ratio) of such excess cash flow is required to be prepaid against outstanding balances. Any mandatory prepayments are first applied to the Revolving Facility until repaid and then to the Term Loan.

Certificate of Incorporation and By-laws

Pursuant to the Plan, on the Effective Date, the Company filed with the Secretary of State of the State of Delaware the Ninth Amended and Restated Certificate of Incorporation of FairPoint Communications and adopted the Second Amended and Restated By-laws (the "By-laws").

Departure and Appointment of Directors

Pursuant to the Plan, as of the Effective Date, the following directors ceased to serve on the Company's board of directors: Thomas F. Gilbane, Jr., Robert S. Lilien, Claude C. Lilly, Jane E. Newman and Michael R. Tuttle.

As of the Effective Date, the number of directors on the New Board was fixed at eight, with Todd W. Arden, Dennis J. Austin, Edward D. Horowitz, Michael J. Mahoney, Michael K. Robinson, David L. Treadwell and Wayne Wilson becoming members of the New Board and Mr. Horowitz was appointed to serve as chair of the New Board. Paul H. Sunu, the Company's Chief Executive Officer, became a director of the Company effective as of August 24, 2010 and continues to serve as a director on the New Board.

In accordance with the By-laws, the initial members of the New Board are expected to hold office until the first annual meeting of stockholders which will be held following the one year anniversary of the Effective Date. Thereafter, members of the New Board are expected to have one-year terms so that their terms will expire at each annual meeting of stockholders.

Registration Rights Agreement

On the Effective Date, the Company entered into a registration rights agreement (the "Registration Rights Agreement") with Angelo, Gordon & Co., L.P. ("Angelo Gordon"), on behalf of and as investment manager of the persons set forth in the Registration Rights Agreement (together with Angelo Gordon, the "Ten Percent Holders") that hold in the aggregate at least 10% of our New Common Stock. Under the Registration Rights Agreement, the Ten Percent Holders are entitled to request an aggregate of two registrations of the Ten Percent Holders' registrable securities; provided that no such rights shall be demanded prior to the expiration of 180 days from the Effective Date. If the Ten Percent Holders in the aggregate hold less than 7.5% of the then outstanding New Common Stock, such holders' rights under the Registration Rights Agreement shall terminate.

Warrant Agreement

On the Effective Date, the Company entered into the Warrant Agreement with the Bank of New York Mellon, as Warrant Agent. Pursuant to the Warrant Agreement, the Company issued or will issue the Warrants to purchase an aggregate of 3,582,402 shares of New Common Stock. The number of shares of New Common Stock issuable upon the exercise of the Warrants is subject to adjustment upon the occurrence of certain events described in the Warrant Agreement. The initial exercise price applicable to the Warrants is $48.81 per share of New Common Stock for which the Warrants may be exercised. The exercise price applicable to the Warrants is subject to adjustment upon the occurrence of certain events described in the Warrant Agreement. The Warrants may be exercised at any time on or before the seventh anniversary of the Effective Date. The Warrants, and all rights under the Warrants, are transferable as provided in the Warrant Agreement.

Litigation Trust Agreement

On the Effective Date, the Company entered into the FairPoint Litigation Trust Agreement (the "Litigation Trust Agreement") with Mark E. Holliday, as litigation trustee (the "Litigation Trustee"), and the official committee of unsecured creditors appointed in the Chapter 11 Cases, pursuant to which the Litigation Trust was established for the benefit of specified holders of allowed claims and for the pursuit of certain causes of action against Verizon arising in connection with the Agreement and Plan of Merger, dated as of January 15, 2007, by and among Verizon, Spinco and FairPoint Communications, as amended (the "Merger Agreement"). Pursuant to the Plan, the Company transferred such claims and causes of actions against Verizon related to the Merger Agreement to the Litigation Trust with title to such claims and causes of action being free and clear of all liens, charges, claims, encumbrances and interests except for the return to FairPoint Communications of any funds deposited in the Litigation Trust bank account. In addition, pursuant to the Plan, the Company transferred funds to the Litigation Trust to pay the reasonable costs and expenses associated with the administration of the Litigation Trust. Pursuant to the Litigation Trust Agreement, the Litigation Trustee may request additional funding for the Litigation Trust from the Company following the Effective Date; provided, that (i) any such additional funding will be subject to the approval of the New Board in its sole discretion, (ii) after giving effect to such additional funding, the Company's cash on hand may not be less than $20.0 million (after taking into account the cash distributions to be made) and (iii) no proceeds of any borrowings under the Revolving Facility may be used to fund such additional funding. The Litigation Trustee may prosecute the transferred claims and causes of action against Verizon as described in and authorized by the Plan and the Litigation Trust Agreement, make timely and appropriate distributions to the beneficiaries of the Litigation Trust and otherwise carry out the provisions of the Litigation Trust Agreement. During June 2011, the money in the Litigation Trust account was distributed to the Litigation Trustee and is no longer held by the Company. On October 25, 2011, the Litigation Trust filed suit in the State of North Carolina Business Court against Verizon Communications and certain of its subsidiaries.

Long Term Incentive Plan and Success Bonus Plan

As contemplated by the Plan, on the Effective Date, the Company was deemed to have adopted the Long Term Incentive Plan and the Success Bonus Plan.

On the Effective Date, in accordance with the Plan, (i) certain of the Company's employees and a consultant of the Company received (a) Success Bonuses of approximately $1.8 million in the aggregate pursuant to the terms of the Success Bonus Plan and/or (b) New Common Stock awards, consisting of restricted shares of New Common Stock and/or options to purchase shares of New Common Stock, pursuant to the terms of the Long Term Incentive Plan, and (ii) members of the New Board received restricted shares of New Common Stock and options to purchase New Common Stock pursuant to the terms of the Long Term Incentive Plan. The Success Bonuses were earned by the Company's employees and were primarily based upon achieving certain performance measures. 3,134,603 shares of New Common Stock were reserved for awards under the Long Term Incentive Plan, of which stock options and restricted stock awards were granted to certain of the Company's employees, a consultant of the Company, and members of the New Board on the Effective Date. Specifically, on the Effective Date, (a) 460,294 shares of stock were distributed to management-level and other employees and a consultant of the Company, with 120,000 restricted stock awards issued to the Company's Chief Executive Officer, 34,000 restricted stock awards issued to the Company's Chief Financial Officer, 161,800 restricted stock awards issued to other members of the Company's senior management and 66,794 unrestricted stock awards issued to David L. Hauser, the Company's former Chief Executive Officer, who was a consultant through the Effective Date, (b) 87,498 shares of restricted stock were awarded to the members of the New Board and (c) stock options were granted with an exercise price of $24.29 for the purchase of (1) 859,000 shares of New Common Stock by management-level and other employees, with 125,000 options to purchase New Common Stock granted to the Company's Chief Executive Officer, 42,000 options to purchase New Common Stock granted to the Company's Chief Financial Officer and 236,500 options to purchase New Common Stock granted to other members of the Company's senior management and (2) 132,012 shares of New Common Stock by members of the New Board. Except for the unrestricted stock awarded to David L. Hauser, these stock option and restricted stock awards vested to the extent of 25% on the Effective Date, and the remainder of these awards is expected to vest in three equal annual installments, commencing on the first anniversary of the Effective Date, with accelerated vesting upon (x) a change in control, or (y) a termination of an award holder's employment either without cause (but only to the extent the vesting becomes at least 50%, plus an additional 25% for each full year of the award holder's employment after the first year after the Effective Date) or due to the award holder's death or disability (but, for stock options, only to the extent vesting would have otherwise occurred within one year following such termination of employment). Mr. Hauser's stock was 100% vested on the Effective Date.

Regulatory Settlements

In connection with the Chapter 11 Cases, the Company negotiated with representatives of the state regulatory authorities in each of Maine, New Hampshire and Vermont with respect to (i) certain regulatory approvals relating to the Chapter 11 Cases and the Plan and (ii) certain modifications to the requirements imposed by state regulatory authorities as a condition to approval of the Merger (each a "Merger Order," and collectively, the "Merger Orders"). The Company agreed to regulatory settlements with the representatives for each of Maine, New Hampshire and Vermont regarding modification of each state's Merger Order (each a "Regulatory Settlement," and collectively, the "Regulatory Settlements") which were then approved by the regulatory authorities in these states.

Reporting Requirements

In connection with the Chapter 11 Cases, regardless of the Effective Date having occurred, the Company is required to continue to file quarterly operating reports with the Bankruptcy Court until the Chapter 11 Cases have all closed. Such reports have been and will be prepared according to the requirements of federal bankruptcy law and related rules. While these reports accurately provide then-current information required under the Bankruptcy Code, they are nonetheless unaudited, are prepared in a format different from that used in our consolidated financial statements filed under the securities laws and certain of this financial information may be prepared on an unconsolidated basis. Accordingly, the Company believes that the substance and format of these reports do not allow meaningful comparison with our regular publicly-disclosed consolidated financial statements. Moreover, the quarterly operating reports filed with the Bankruptcy Court are not prepared for the purpose of providing a basis for an investment decision relating to our securities, or for comparison with other financial information filed by the Company with the SEC.

Plan Injunction

Except as otherwise provided in the Plan, the Confirmation Order enjoined, or stayed, the continuation of any judicial or administrative proceedings or other actions against the Company or its properties to recover on, collect or secure a claim arising prior to the Effective Date. Thus, for example, creditor actions to obtain possession of property from the Company, or to create, perfect or enforce any lien against our property, or to collect on monies owed or otherwise exercise rights or remedies with respect to a claim arising prior to the Effective Date, are enjoined except as provided in the Plan.

Impact on Net Operating Loss Carryforwards ("NOLs")

The Company's NOLs were substantially reduced by the recognition of gains on the discharge of certain debt pursuant to the Plan. Further, the Company's ability to utilize its NOL carryforwards will be limited by Section 382 of the Internal Revenue Code of 1986, as amended, as the debt restructuring resulted in an ownership change. In general, following an ownership change, a limitation is imposed on the amount of pre-ownership change NOL carryforwards that may be used to offset taxable income in each year following the ownership change. The Company plans to elect, pursuant to a special rule that is applicable to ownership changes resulting from a Chapter 11 reorganization, to calculate this annual limitation by increasing the value attributed to the Company's stock prior to the ownership change by the amount of creditor claims surrendered or canceled during the reorganization. Specifically, the amount of the annual limitation would equal the "long-term tax-exempt rate" (published monthly by the Internal Revenue Service (the "IRS")) for the month in which the ownership change occurs, which in the Company's case is 4.10%, multiplied by the lesser of (i) the value of the Company's stock immediately after, rather than immediately before, the ownership change, and (ii) the value of the Company's pre-change assets. Any increase in the value attributed to the Company's stock resulting from the ownership change effectively would increase the annual limitation on our NOLs.

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

Financial Reporting in Reorganization

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

The accompanying consolidated financial statements have been prepared in accordance with the Reorganizations Topic of the ASC through the Effective Date. All pre-petition liabilities subject to compromise have been segregated in the consolidated balance sheets and classified as liabilities subject to compromise at the estimated amount of the allowable claims. Liabilities not subject to compromise are separately classified as current or noncurrent. The Company's consolidated statements of operations for the twenty-four days ended January 24, 2011, the year ended December 31, 2010 and the sixty-six days ended December 31, 2009, include the results of operations during the Chapter 11 Cases. As such, any revenues, expenses, and gains and losses realized or incurred that are directly related to the bankruptcy case are reported separately as reorganization items due to the bankruptcy.

Table of Contents

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

Upon the Effective Date, the Company adopted fresh start accounting in accordance with guidance under the applicable reorganization accounting rules, pursuant to which the Company's reorganization value, which represented the fair value of the entity before considering liabilities and approximated the amount a willing buyer would pay for the assets of the entity immediately after the reorganization, was allocated to the fair value of assets in conformity with guidance under the applicable accounting rules for business combinations, using the purchase method of accounting for business combinations. The amount remaining after allocation of the reorganization value to the fair value of identified tangible and intangible assets was reflected as goodwill, which is subject to periodic evaluation for impairment and was determined to be entirely impaired at September 30, 2011. See note 3(n) for further details of the goodwill impairment. In addition to fresh start accounting, the Company's post-emergence consolidated financial statements reflect all effects of the transactions contemplated by the Plan. Accordingly, the Company's post-emergence consolidated statements of financial position and consolidated statements of operations are not comparable in many respects to the Company's consolidated statements of financial position and consolidated statements of operations for periods prior to the adoption of fresh start accounting and prior to accounting for the effects of the reorganization.

Reorganization Items

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

	Predecessor Company		
	Twenty-Four Days Ended January 24, 2011	Year Ended December 31, 2010	Year Ended December 31, 2009
Professional fees (a)	$ (13,965)	$(59,870)	$ (8,365)
Success bonus (b)	—	(1,111)	(689)
Non-cash allowed claim adjustments (c)	—	(977)	(43,964)
Cancellation of debt income (d)	1,351,057	20,838	—
Goodwill adjustment (e)	(351,931)	—	—
Intangible assets adjustment (e)	(30,381)	—	—
Property, plant and equipment adjustment (e)	(56,258)	—	—
Pension and post-retirement healthcare adjustment (e)	22,076	—	—
Other assets and liabilities adjustment (e)	(16,037)	—	—
Tax account adjustments (e)	4,313	—	—
Other (f)	(11,561)	—	—
Total reorganization items	$ 897,313	$ (41,120)	$(53,018)

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

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

(c) The carrying values of certain liabilities subject to compromise were adjusted to the value of the claim allowed by the Bankruptcy Court.
(d) Net gains and losses associated with the settlement of liabilities subject to compromise, of which $1,351,055 was recognized on the Effective Date.
(e) Revaluation of long lived assets and certain assets and liabilities upon adoption of fresh start accounting.
(f) Includes expenses associated with the Long Term Incentive Plan, the Litigation Trust and the write off of the predecessor company's long term incentive plan and director and officer policy.

Professional fees directly associated with the reorganization process that have been incurred after the Effective Date are included in operating expenses as Reorganization related expense in the consolidated statement of operations.

Liabilities Subject to Compromise

Liabilities subject to compromise refer to liabilities incurred prior to the Petition Date for which the Company has not received approval from the Bankruptcy Court to pay or otherwise honor. The amounts of the various categories of liabilities that are subject to compromise are set forth below. These amounts represent the estimates of known or potential Pre-Petition Date claims that are likely to be resolved in connection with the Chapter 11 Cases.

At the Effective Date, all liabilities subject to compromise were either settled through issuance of cash, shares of New Common Stock or Warrants, or were included in the Company's claims payable and estimated claims accrual (the "Claims Reserve"). As such, as of the Effective Date, no liabilities remain subject to compromise. Liabilities subject to compromise at December 31, 2010 consisted of the following (amounts in thousands):

	Predecessor Company December 31, 2010
Senior secured credit facility	$ 1,970,963
Senior Notes	549,996
Interest rate swap	98,833
Accrued interest	211,550
Accounts payable	57,640
Other accrued liabilities	16,129
Other long-term liabilities	200
Liabilities subject to compromise	$ 2,905,311

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

Magnitude of Potential Claims

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

Bankruptcy Rule 3003(c)(3) requires the Bankruptcy Court to set the time within which proofs of claim must be filed in a Chapter 11 case. The Bankruptcy Court established March 18, 2010 at 5:00 p.m. Eastern Time (the "General Bar Date") as the last date and time for all non-governmental entities to file a proof of claim against the Debtors and April 26, 2010 at 5:00 p.m. Eastern Time (the "Governmental Bar Date", and together with the General Bar Date, the "Bar Dates") as the last date and time for all governmental entities to file a proof of claim against the Company. Subject to certain exceptions, the Bar Dates apply to all claims against the Debtors that arose prior to the Petition Date. As further provided in the Plan and the Confirmation Order, March 25, 2011 was the last date and time for the filing of a claim for unpaid post-petition claims.

As of March 2, 2012, claims totaling $4.9 billion were filed with the Bankruptcy Court against the Company, $3.6 billion of which have been settled and $1.1 billion of which have been disallowed by the Bankruptcy Court. Additionally, $10.0 million of these claims have been withdrawn by the respective creditors and $190.5 million of these claims remain open, pending settlement or objection, including $169.1 million of duplicative claims filed by one company and its affiliates. The Company expects the majority of these pending claims to be disallowed. In light of the Company's emergence from bankruptcy on the Effective Date, the Company does not anticipate a significant number of new and amended claims to be filed in the future. The Company has identified claims that the Company believes should be disallowed by the Bankruptcy Court because they are duplicative, have been later amended or are overstated or for other reasons. The Company expects to either settle or file an objection to the remaining claims. Because of the duplicative claims, the amount of disallowed and settled claims may increase significantly in the future.

On the Effective Date, the Company distributed cash, entered into the Credit Agreement, and issued shares of New Common Stock and Warrants to satisfy $2.8 billion of claims. In addition, on the Effective Date, the Company established a cash reserve to pay outstanding bankruptcy claims and various other bankruptcy related fees (the "Cash Claims Reserve") of $82.8 million and reserved 72,754 shares of New Common Stock and Warrants to purchase 124,012 shares of New Common Stock for satisfaction of pending claims. Subsequent to the Effective Date, the Company has made additional cash distributions from its Cash Claims Reserve and issued additional shares of New Common Stock to satisfy claims as they are resolved. As a result of these distributions, the Cash Claims Reserve as of March 2, 2012, has been decreased to $22.1 million. As of March 2, 2012, 69,194 shares of New Common Stock and Warrants to purchase 117,943 shares of New Common Stock remain to be distributed in satisfaction of pending claims.

Through the claims resolution process, differences in amounts scheduled by the Company and claims filed by creditors have been and are being investigated and resolved, including through the filing of objections with the Bankruptcy Court where appropriate. As a result of pending obligations, the claims resolution process will continue to take time to complete. Accordingly, the ultimate number and amount of allowed claims is not presently known, nor is the exact recovery with respect to allowed claims presently known.

Fresh Start Accounting

Upon confirmation of the Plan by the Bankruptcy Court and satisfaction of the remaining material contingencies to complete the implementation of the Plan, fresh start accounting principles were applied on the Effective Date pursuant to the provisions of the Reorganizations Topic of the ASC. The adoption of fresh start accounting resulted in a new reporting entity. The financial statements as of January 24, 2011 and for subsequent periods will report the results of a new entity with no beginning retained earnings. All periods after the adoption of fresh start accounting and the Plan on the Effective Date are referred to as the Successor Company, whereas all periods preceding these applications are referred to as the Predecessor Company. With the exception of deferred taxes and assets and liabilities associated with pension and post-retirement health plans, which were recorded in accordance with the Income Taxes Topic of the ASC and the Compensation Topic of the ASC, respectively, all Successor Company assets and liabilities were recorded at their estimated fair values upon the Effective Date and the Predecessor Company's retained deficit and accumulated other comprehensive income were eliminated. Any presentation of the Successor Company represents the financial position and results of operations of the new reporting entity and is not comparable to prior periods.

Under the Reorganization Topic of the ASC, the Company was required to apply the provisions of fresh start accounting to its financial statements because (i) the reorganization value of the assets of the emerging entity immediately before the date of confirmation was less than the total of all post-petition liabilities and allowed claims and (ii) the holders of the existing voting shares of the predecessor's common stock immediately before confirmation received less than 50 percent of the voting shares of the emerging entity.

In accordance with fresh start accounting, which incorporated the acquisition method of accounting for business combinations in the Business Combinations Topic of the ASC, the Company recorded the assets and non-interest bearing liabilities at fair value, with the exception of deferred taxes and assets and liabilities associated with pension and post-retirement health plans which were recorded in accordance with the Income Taxes Topic of the ASC and the Compensation Topic of the ASC, respectively. The Company also recorded the Successor Company debt and equity at fair value utilizing the total enterprise value of approximately $1.5 billion, which was determined in conjunction with the confirmation of the Plan in part based on a set of financial projections for the Successor Company. The enterprise value was dependent upon achieving the future financial results set forth in the Company's projections, as well as the realization of certain other assumptions. There can be no assurance that the projections will be achieved or that the assumptions will be realized.

Table of Contents

The implementation of the Plan and the adoption of fresh start accounting in the Company's consolidated balance sheet as of January 24, 2011 were as follows:

FAIRPOINT COMMUNICATIONS, INC. AND SUBSIDIARIES
Reorganized Consolidated Balance Sheet
As of January 24, 2011
(Unaudited)
(in thousands, except share data)

	Predecessor Company	Reorganization Adjustments (a)		Fresh Start Adjustments (b)		Successor Company
Assets						
Current assets:						
Cash	$ 101,703	(91,441)	(c)	—		$ 10,262
Restricted cash	2,386	82,764	(c)	—		85,150
Accounts receivable, net	129,308	—		—		129,308
Materials and supplies	24,776	—		(24,098)	(l)	678
Prepaid expenses	17,152	—		(2,347)		14,805
Other current assets	8,620	—		(4,247)		4,373
Deferred income tax, net	31,400	—		—		31,400
Total current assets	**315,345**	**(8,677)**		**(30,692)**		**275,976**
Property, plant and equipment, net	1,852,508	—		(28,838)	(f)(l)	1,823,670
Goodwill	595,120	—		(351,931)	(i)	243,189
Intangible assets, net	187,791	—		(30,381)	(g)	157,410
Prepaid pension asset	3,053	—		363	(h)	3,416
Debt issue costs, net	—	2,366	(d)	—		2,366
Restricted cash	1,678	—		—		1,678
Other assets	13,040	—		(3,874)	(l)	9,166
Total assets	**$ 2,968,535**	**(6,311)**		**(445,353)**		**$ 2,516,871**
Liabilities and Stockholders' Equity (Deficit)						
Liabilities not subject to compromise:						
Current portion of long-term debt	$ —	—		—		$ —
Current portion of capital lease obligations	1,233	—		—		1,233
Accounts payable	98,674	(23,735)		—		74,939
Claims payable and estimated claims accrual	—	94,292	(c)	—		94,292
Other accrued liabilities	61,065	(1,800)	(c)	(4,457)	(h)	54,808
Total current liabilities	**160,972**	**68,757**		**(4,457)**		**225,272**
Capital lease obligations	3,831	—		—		3,831
Accrued pension obligation	93,033	—		(7,905)	(h)	85,128
Employee benefit obligations	346,853	—		(13,599)	(h)	333,254
Deferred income taxes	56,408	331,493	(j)	(40,124)	(j)	347,777
Unamortized investment tax credits	4,313	—		(4,313)	(j)	—
Other long-term liabilities	12,079	(2,094)	(c)	13,138		23,123
Long-term debt, net of current portion	—	1,000,000	(d)	—		1,000,000
Total long-term liabilities	**516,517**	**1,329,399**		**(52,803)**		**1,793,113**
Total liabilities not subject to compromise	**677,489**	**1,398,156**		**(57,260)**		**2,018,385**
Liabilities subject to compromise	2,910,952	(2,910,952)		—		—
Total liabilities	**3,588,441**	**(1,512,796)**		**(57,260)**		**2,018,385**
Stockholders' equity (deficit):						
Predecessor Company common stock	894	(894)		—		—
Additional paid-in capital, Predecessor Company	725,804	(725,804)		—		—
Successor Company common stock	—	257	(i)	—		257
Additional paid-in capital, Successor Company	—	498,229	(i)	—		498,229
Retained deficit	(1,134,293)	1,734,697	(e)	(600,404)	(k)	—
Accumulated other comprehensive loss	(212,311)	—		212,311		—
Total stockholders' equity (deficit)	**(619,906)**	**1,506,485**		**(388,093)**		**498,486**
Total liabilities and stockholders' equity (deficit)	**$ 2,968,535**	**(6,311)**		**(445,353)**		**$ 2,516,871**

(a) Represents amounts recorded for the implementation of the Plan on the Effective Date. This included the settlement of liabilities subject to compromise, distributions of cash, authorization and partial distribution of shares of New Common Stock and Warrants, designation of restricted cash to satisfy allowed claims and the cancellation of predecessor Old Common Stock resulting in a pre-tax gain of approximately $1,351.0 million on extinguishment of obligations pursuant to the Plan and the related tax effects. The following reflects the calculation of the pre-tax gain (in thousands, unaudited):

Liabilities subject to compromise	$2,910,952
Less: Transfer to claims reserve	(66,893)
Remaining liabilities subject to compromise	2,844,059
Less: Issuance of debt and equity	
New long-term debt	(1,000,000)
Successor common stock (at par value)	(251)
Successor additional paid-in capital	(476,403)
Successor warrants	(16,350)
Pre-tax gain from cancellation and satisfaction of predecessor debt	**$ 1,351,055**

(b) Represents the adjustments of assets and liabilities to fair value or other measurement in conjunction with adoption of fresh start accounting.

(c) Records the Claims Reserve and the Cash Claims Reserve restricted for satisfaction of the reserve. The following reflects the components of the Claims Reserve (in thousands, unaudited):

Liabilities subject to compromise to be satisfied in cash	$66,893
Professional and restructuring fees	24,601
Other	9,894
Claims Reserve before emergence date payments	**101,388**
Less: Professional and restructuring fee payments	(7,096)
Claims Reserve at emergence	**$ 94,292**

The decrease in cash of $91.4 million at emergence was comprised of a reclassification of $82.8 million of operating cash to the Cash Claims Reserve within restricted cash to satisfy the Claims Reserve, $1.5 million of fees paid relating to debt financing and cash payments of $7.1 million for professional and restructuring fees. Tax claims were included in the Claims Reserve but were not included in the Cash Claims Reserve, because they were not required to be so included.

(d) Records the issuance of senior secured debt and related debt financing. Debt issuance costs of $2.4 million ($1.5 million paid in cash on the Effective Date) related to the Credit Agreement Loans were recorded in Debt issue costs, net and will be amortized over the terms of the respective agreements.

(e) Reflects the cumulative impact of the reorganization adjustments (in thousands, unaudited):

Pre-tax gain from cancellation and satisfaction of predecessor debt	$ 1,351,055
Income tax impact	(331,495)
Other	(11,561)
Total impact on consolidated statement of operations	**$ 1,007,999**
Cancellation of predecessor common stock and additional paid-in capital	726,698
Total reorganization adjustments	**$ 1,734,697**

(f) Reflects the fair values of property, plant and equipment in connection with fresh start accounting. Fair value estimates were based on the following valuation methods:

- Land was valued using a combination of the market approach, which was primarily based on pertinent local sales and listings data, and the indirect cost approach, in which market trending indices were applied to the historical capital cost.
- Other real property such as buildings, building improvements and leasehold improvements were valued using either: (1) current market cost to construct improvements where information regarding size, age, construction type, etc. was available and (2) current market trending indices applied to historical capital costs where such detailed information was not available.
- Network assets (including central office and outside communications plant equipment) were valued using a combination of the direct replacement cost approach to value outside communications plant assets and an indirect cost approach in which current market trending indices were applied to the historical capital cost.
- Other personal property such as furniture, fixtures and other equipment were valued using a combination of a “percent of cost” market approach and an indirect cost approach based on replacement costs and current market trending indices.

The indices utilized were selected from industry accepted and published cost indices including the Bureau of Labor Statistics, Marshall Valuation Service, Consumer Price Indices, NACREIF Property Index and AUS Telephone Plant Index.

Table of Contents

(g) Reflects the fair value of identifiable intangible assets in connection with fresh start accounting. The Company recognized a $99.0 million customer list intangible asset, a $58.0 million trade name intangible asset related to the FairPoint Communications trade name and a $0.4 million favorable leasehold agreement intangible asset.

- The customer list asset was valued based on a cost method which utilized average cost to acquire a new line multiplied by the number of existing lines within the FairPoint network.
- The trade name was valued based on the relief from royalty method which utilized projected revenue (excluding wholesale revenue), the royalty rate that would be charged by an asset licensor to an unrelated licensee and a discount rate.

(h) An adjustment of $22.1 million (net) was recorded to measure the pension and other post-retirement employee benefit obligations as of the Effective Date. This adjustment primarily reflects the change in the weighted average discount rate applied to projected benefit obligations from the prior measurement date to the Effective Date. The weighted average discount rates applied to projected obligations changed as follows:

	January 24, 2011	December 31, 2010
Pension Discount Rate	5.75%	5.56%
Post-retirement Healthcare Discount Rate	5.84%	5.65%

(i) Reconciliation of enterprise value to the reorganization value of FairPoint assets, determination of goodwill and reconciliation of reorganization value of FairPoint assets to the Successor Company equity (in thousands, unaudited):

Business Enterprise Value	**$ 1,498,486**
Plus: Non-debt liabilities	1,018,385
Reorganization Value of FairPoint Assets	**$ 2,516,871**
Fair value of FairPoint assets (excluding goodwill)	(2,273,682)
Reorganization Value in Excess of Fair Value (Goodwill)	**$ 243,189**

During the second quarter of 2011, the Company made a reclassification adjustment to Property, Plant and Equipment related to fresh start accounting, which reduced goodwill by $12.8 million to $243.2 million.

Reorganization Value of FairPoint Assets	$2,516,871
Less: Non-debt liabilities	(1,018,385)
Debt	(1,000,000)
New Common Stock ($257) and Additional Paid-in-Capital ($498,229)	**$ 498,486**

(j) Reflects the re-measurement of the Company's deferred tax assets and liabilities, unrecognized tax benefits and other tax related accounts as a result of implementing the plan of reorganization and fresh start accounting in accordance with accounting guidance.

(k) Reflects the adjustment of assets and liabilities to fair value or other measurement as specified in accounting guidance related to business combinations as follows (in thousands, unaudited):

Elimination of predecessor goodwill	$595,120
Elimination of predecessor intangible assets	187,791
Property, plant and equipment adjustment	56,258
Successor unfavorable agreement liabilities	13,690
Successor intangible assets	(157,410)
Successor goodwill	(243,189)
Pension and post-retirement healthcare actuarial gain	(22,076)
Income tax impact	(40,124)
Other adjustments	(1,967)
Total impact on consolidated statement of operations	**$ 388,093**
Elimination of accumulated other comprehensive loss	212,311
Total fair value adjustments and elimination of predecessor accumulated other comprehensive loss	**$ 600,404**

(l) In conjunction with fresh start accounting, management of the Successor Company changed its accounting policy to classify certain items relating to future use in capital projects with property, plant and equipment. As a result of this change in policy, management reclassified $24.1 million from materials and supplies and $3.3 million from other long-term assets to property, plant and equipment.

(3) Summary of Significant Accounting Policies

(a) Presentation and Use of Estimates

The accompanying consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles ("GAAP"), which require management to make estimates and assumptions that affect reported amounts and disclosures. Actual results could differ from those estimates. The consolidated financial statements reflect all adjustments that are necessary for a fair presentation of results of operations and financial condition for the periods shown, including normal recurring accruals and other items.

Examples of significant estimates include fresh start accounting, the allowance for doubtful accounts, revenue reserves, the recoverability of plant, property and equipment, valuation of intangible assets, pension and post-retirement healthcare plan assumptions and income taxes. In addition, estimates have been made in determining the amounts and classification of certain liabilities within liabilities subject to compromise and the Claims Reserve.

(b) Revenue Recognition

Revenues are recognized as services are rendered and are primarily derived from the usage of the Company's networks and facilities or under revenue-sharing arrangements with other communications carriers. Revenues are primarily derived from: access, pooling, voice services, Universal Service Fund receipts, Internet and broadband services and other miscellaneous services. Local access charges are billed to local end users under tariffs approved by each state's Public Utilities Commission ("PUC"). Access revenues are derived for the intrastate jurisdiction by billing access charges to interexchange carriers and to other local exchange carriers ("LECs"). These charges are billed based on toll or access tariffs filed with the local state's PUC. Access charges for the interstate jurisdiction are billed in accordance with tariffs filed by the National Exchange Carrier Association or by the individual company and approved by the Federal Communications Commission (the "FCC").

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

Long-distance retail and wholesale services can be recurring due to coverage under an unlimited calling plan or usage sensitive. In either case, they are billed in arrears and recognized when earned. Internet and broadband services revenues are substantially all recurring revenues and are billed one month in advance and deferred until earned.

As of December 31, 2011 and 2010, unearned revenue of $17.0 million and $15.3 million, respectively, were included in other accrued liabilities on the consolidated balance sheets.

The majority of the Company's miscellaneous revenue is provided from billing and collection, late payment charges to end users and interexchange carriers, miscellaneous project revenues and directory services. The Company earns revenue from billing and collecting charges for toll calls on behalf of interexchange carriers. The interexchange carrier pays a certain rate per each minute billed by the Company. The Company recognizes revenue from billing and collection services when the services are provided. In 2011, the Company began billing for late payment fees to customers who have not paid their bills in a timely manner. Late fee revenue for residential and small business end user customers is recognized as it is billed while it is recognized for interexchange carriers as it is collected. The Company requires customers to pay for miscellaneous projects in advance. As of December 31, 2011 and 2010, $9.8 million and $4.6 million in customer deposits, respectively, were included in other accrued liabilities on the consolidated balance sheets. Once the miscellaneous project is completed and all project costs have been accumulated for proper accounting recognition, the advance payment is recognized as revenue with any overpayments refunded to the customer as appropriate.

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

Service quality index ("SQI") penalties and certain performance assurance plan ("PAP") penalties are recorded as a reduction to revenue. SQI penalties for Maine, New Hampshire and Vermont are recorded to other accrued liabilities on the consolidated balance sheets. PAP penalties for Maine and New Hampshire are recorded as a reduction to accounts receivable since these penalties are paid by the Company in the form of credits applied to the Competitive Local Exchange Carrier ("CLEC") bills. PAP penalties in Vermont are recorded to other accrued liabilities as a majority of these penalties are paid to the Vermont Universal Service Fund, while the remaining credits assessed in Vermont are paid by the Company in the form of credits applied to CLEC bills.

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

Management makes estimated adjustments, as necessary, to revenue or accounts receivable for billing errors, including certain disputed amounts.

(c) Maintenance and Repairs

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

(d) Cash and Cash Equivalents

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

(e) Restricted Cash

As of December 31, 2011, the Company had $22.9 million of restricted cash from which outstanding bankruptcy claims will be paid, $1.5 million of restricted cash for removal of dual poles in Vermont and $0.7 million of cash restricted for other purposes.

In total, the Company had $25.1 million of restricted cash at December 31, 2011 of which $24.4 million is shown in current assets and $0.7 million is shown as a non-current asset on the consolidated balance sheet.

(f) Accounts Receivable

Accounts receivable are recorded at the invoiced amount and do not bear interest. The allowance for doubtful accounts is the Company's best estimate of the amount of probable credit losses in the Company's existing accounts receivable. The Company establishes an allowance for doubtful accounts based upon factors surrounding the credit risk of specific customers, historical trends, and other information. Receivable balances are reviewed on an aged basis and account balances are written off against the allowance after all means of collection have been exhausted and the potential for recovery is considered remote.

The following is activity in the Company's allowance for doubtful accounts receivable for the 341 days ended December 31, 2011, the 24 days ended January 24, 2011 and years ended December 31, 2010 and 2009 (in thousands):

	Successor Company	Predecessor Company		
	Three Hundred Forty-One Days Ended December 31, 2011	Twenty-Four Days Ended January 24, 2011	Year ended December 31, 2010	2009
Balance, beginning of period	$ —	$ 40,608	$ 58,358	$ 20,340
Provision charged to expense	18,344	3,454	20,525	48,402
Provision charged to other accounts (a)	(129)	(159)	(586)	(91)
Amounts written off, net of recoveries	(6,718)	(2,566)	(37,689)	(10,293)
Fresh start accounting adjustment	—	(41,337)	—	—
Balance, end of period	$ 11,497	$ —	$ 40,608	$ 58,358

(a) Provision charged to other accounts includes accruals charged to accounts payable for anticipated uncollectible charges on purchase of accounts receivable from others which were billed by the Company.

(g) Credit Risk

Financial instruments, which potentially subject the Company to concentrations of credit risk, consist principally of cash and trade receivables. The Company places its cash with high-quality financial institutions. Concentrations of credit risk with respect to trade receivables are principally related to receivables from other interexchange carriers and are otherwise limited to the Company's large number of customers in several states.

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

(h) Materials and Supplies

Prior to the Effective Date, materials and supplies included new and reusable supplies and network equipment, which were stated principally at average original cost, except where specific costs were used in the case of large individual items.

Materials and supplies of the Successor Company consist of finished goods and are stated at the lower of cost or market value. Cost is determined using either an average original cost or specific identification method of valuation.

(i) Property, Plant and Equipment

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

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

Network software purchased or developed in connection with related plant assets is capitalized. The Company also capitalizes interest associated with the acquisition or construction of network related assets. Capitalized interest is reported as part of the cost of the network related assets and as a reduction in interest expense. See note 3(k).

In connection with the Company's adoption of fresh start accounting on the Effective Date, property, plant and equipment assets were revalued to their fair value, generally their appraised value after considering economic obsolescence, and new remaining useful lives were established. Accumulated depreciation was reset to zero. The appraisals assigned remaining useful lives to each asset ranging from two to twenty-three years. The revalued assets will be depreciated over these estimated remaining useful lives under the same method utilized for the Predecessor Company assets.

Property additions after the Effective Date are recorded and depreciated in a manner consistent with the Predecessor Company utilizing the estimated asset lives presented in the following table:

Category	Average Life (In Years)
Buildings	45
Central office equipment	5 – 11
Outside communications plant	
Copper cable	15 – 18
Fiber cable	25
Poles and conduit	30 – 50
Furniture, vehicles and other	3 – 15

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

(j) Long-Lived Assets

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

As of December 31, 2010, as a result of changes to the Company's financial projections related to the Chapter 11 Cases, the Company determined that a possible impairment of long-lived assets was indicated. In accordance with the Property, Plant and Equipment Topic of the ASC, the Company performed recoverability tests, based on undiscounted projected future cash flows associated with its long-lived assets and determined that long-lived assets were not impaired at December 31, 2010.

Given the significant sustained decline in the Company's stock price since the Effective Date which had caused the Company's market capitalization to be below its book value, and both the September 30, 2011 impairment of goodwill and impairment of the FairPoint trade name, the Company determined that a possible impairment of long-lived assets was present as of September 30, 2011. See note 3(n) for further discussion of the September 30, 2011 impairment to goodwill and the FairPoint trade name. However, the Company concluded that at September 30, 2011 long-lived assets were recoverable based on the fact that the Company's gross cash flows are greater than the carrying value.

As of December 31, 2011, the Company performed its routine review of impairment triggering events specified by the Property, Plant and Equipment Topic of the ASC and concluded that it does not believe a triggering event has occurred.

(k) Computer Software and Interest Costs

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

Subsequent additions, modifications or upgrades to internal-use software are capitalized only to the extent that they allow the software to perform a task it previously did not perform. Software maintenance and training costs are expensed in the period in which they are incurred.

In addition, the Company capitalizes the interest cost associated with the period of time over which the Company's internal use software is developed or obtained in accordance with the Interest Topic of the ASC. The Company did not capitalize interest costs incurred during the pendency of the Chapter 11 Cases, as payments on all interest obligations had been stayed as a result of the filing of the Chapter 11 Cases. Upon entry into the Credit Agreement on the Effective Date, the Company resumed capitalization of interest costs.

During the 341 days ended December 31, 2011 and the 24 days ended January 24, 2011, the Company capitalized $12.1 million and $1.3 million, respectively, in software costs and $0.2 million in interest costs for the 341 days ended December 31, 2011. No interest costs were capitalized for the 24 days ended January 24, 2011.

As of the years ended December 31, 2011 and 2010, the gross value and accumulated depreciation of the capitalized software was $107.0 million and $41.3 million, respectively, and $226.9 million and $106.7 million, respectively. During the 341 days ended December 31, 2011, the 24 days ended January 24, 2011 and the years ended December 31, 2010 and 2009, amortization expense on the capitalized software was $41.3 million, $2.9 million, $43.0 million and $37.9 million, respectively, and is expected to be $45.5 million in 2012, $15.7 million in 2013, $1.5 million in 2014, $1.5 million in 2015 and $1.4 million in 2016, respectively.

Upon the Effective Date, a fresh start adjustment of $29.7 million was made to record capitalized software at its estimated fair value.

(l) Debt Issue Costs

The Company entered into the DIP Credit Agreement on October 27, 2009. The Company incurred $0.9 million of debt issue costs associated with the DIP Credit Agreement and began to amortize these costs over the nine-month life of the DIP Credit Agreement using the effective interest method. Concurrent with the final order of the Bankruptcy Court, dated March 11, 2010 (the "Final DIP Order"), the Company incurred an additional $1.1 million of debt issue costs associated with the DIP Credit Agreement and began to amortize these costs over the remaining life of the DIP Credit Agreement using the effective interest method. On October 22, 2010, the Company incurred an additional $0.4 million of debt issue costs to extend the DIP Credit Agreement through January 2011. The Company has amortized these costs over the extended life of the DIP Credit Agreement.

On the Effective Date, the Company entered into the Credit Agreement. The Company incurred $2.4 million of debt issue costs associated with the Credit Agreement and began to amortize these costs over a weighted average life of 3.7 years using the effective interest method.

As of December 31, 2011 and 2010, the Company had capitalized debt issue costs of $1.8 million and $0.1 million, respectively, net of amortization.

(m) Advertising Costs

Advertising costs are expensed as they are incurred.

(n) Goodwill and Other Intangible Assets

Goodwill

As of December 31, 2010, goodwill consisted of the difference between the purchase price incurred in the acquisition of Telecom Group (FairPoint Communications, Inc. exclusive of the local exchange business acquired from Verizon and its subsidiaries after giving effect to the Merger (the "Northern New England operations")), using the purchase method of accounting and the fair value of net assets acquired. Upon the Effective Date, goodwill consists of the difference between the reorganization value of the predecessor company and the fair value of net assets using the acquisition method of accounting for business combinations in the Business Combinations Topic of the ASC. In accordance with the Intangibles – Goodwill and Other Topic of the ASC, goodwill is not amortized, but is assessed for impairment at least annually. The Company performs its annual impairment test as of the first day of the fourth fiscal quarter of each year.

Goodwill impairment is determined using a two-step process. Step one compares the estimated fair value of the Company's single reporting unit (calculated using both the market approach and the income approach) to its carrying amount, including goodwill. The market approach compares the fair value of the Company, as measured by its market capitalization, to the carrying amount of the Company, which represents its stockholders' equity balance. The income approach is based upon projected future cash flows discounted to present value using factors that consider the timing and risk associated with the future cash flows. The fair value of the Company's single reporting unit was estimated using a probability weighted scenario of future cash flow projections based on management's long range estimates of market conditions over a multiple year horizon. An estimated growth rate was used to arrive at an estimated terminal value. A discount rate was based upon a cost of capital calculated using various inputs, such as the risk-free rate, equity risk premium, size premium, company specific premium, etc., as of the date of the goodwill impairment test.

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

During this assessment, management relies on a number of factors, including operating results, business plans and anticipated future cash flows. The Company performed step one of its annual goodwill impairment assessment as of October 1, 2010 and concluded that there was no impairment at that time. At December 31, 2010, the Company had goodwill of $595.1 million.

In connection with the Company's adoption of fresh start accounting on the Effective Date, goodwill of the Predecessor Company was eliminated. On the Effective Date, the Company recorded $256.0 million of goodwill in connection with the Company's adoption of fresh start accounting. During the second quarter of 2011, the Company made a $12.8 million reclassification adjustment to Property, Plant and Equipment based on fresh start accounting guidance which reduced the goodwill to $243.2 million.

At September 30, 2011, as a result of the significant sustained decline in the Company's stock price since the Effective Date, which had caused the Company's market capitalization to be below its book value, the Company determined that a possible impairment of goodwill was indicated and concluded that an interim goodwill impairment test was necessary. In step one, the Company calculated the discounted cash flows to arrive at a fair value, which was then compared to the carrying value, including goodwill. A combination of expected cash flows and higher discount rates resulted in the fair value, using the discounted cash flow method, being less than the carrying value, at which point the company proceeded to step two, as outlined above. Results of the impairment test required the Company to record an impairment charge reducing the carrying value of the goodwill to zero at September 30, 2011. This non-cash impairment charge has no impact on the Company's compliance with the covenants contained in the Credit Agreement.

The goodwill impairment falls within Level 3 of the fair value hierarchy (see note 18), due to the use of significant unobservable inputs to determine fair value. The fair value measurement was calculated using unobservable inputs, primarily using the income approach and specifically the discounted cash flow method.

Non-amortizable Intangible Assets

In accordance with the Intangibles – Goodwill and Other Topic of the ASC, non-amortizable intangible assets are assessed for impairment at least annually. The Company performs its annual impairment test as of the first day of the fourth fiscal quarter of each year and assesses the fair value of the trade name based on the relief from royalty method. If the carrying amount of the trade name exceeds its estimated fair value, the asset is considered impaired.

For its non-amortizable intangible asset impairment assessments of the FairPoint trade name, the Company makes certain assumptions including an estimated royalty rate, a long-term growth rate, an effective tax rate and a discount rate, and applies these assumptions to projected future cash flows, exclusive of cash flows associated with wholesale revenues as these revenues are not generated through brand recognition. Changes in one or more of these assumptions may result in the recognition of an impairment loss different from what was actually recorded.

The Company performed its 2010 annual non-amortizable intangible asset impairment assessment as of October 1, 2010 and concluded that there was no indication of impairment at that time. As of December 31, 2010, as a result of changes to the Company's financial projections related to the Chapter 11 Cases, the Company determined that a possible impairment of its non-amortizable intangible assets was indicated. The Company performed an interim non-amortizable intangible asset impairment assessment as of December 31, 2010 and determined that the trade name was not impaired. At December 31, 2010, the Company's trade name was recorded at $42.8 million.

On the Effective Date, the Company recorded a $58.0 million non-amortizable intangible asset related to the FairPoint trade name in connection with the Company's adoption of fresh start accounting.

At September 30, 2011, as a result of the significant sustained decline in the Company's stock price since the Effective Date which has caused the Company's market capitalization to be below its book value, the Company determined that a possible impairment of the FairPoint trade name was indicated and concluded that an interim impairment test was necessary. Results of the impairment test required the Company to record an impairment charge totaling $18.8 million at September 30, 2011. Since this interim impairment test was performed on the last day of the 2011 third fiscal quarter, it effectively served as the Company's 2011 annual non-amortizable intangible asset impairment test for the fiscal year. As of December 31, 2011, the Company performed its routine review of impairment triggering events specified by the Intangibles – Goodwill and Other Topic of the ASC and concluded that it did not believe a triggering event has occurred. At December 31, 2011, the Company's trade name is recorded at $39.2 million.

The trade name impairment falls within Level 3 of the fair value hierarchy (see note 18), due to the use of significant unobservable inputs to determine fair value. The fair value measurement was calculated using unobservable inputs, using the relief from royalty method.

Amortizable Intangible Assets

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

(o) Accounting for Income Taxes

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

FairPoint files a consolidated income tax return with its subsidiaries. All intercompany tax transactions and accounts have been eliminated in consolidation.

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

(p) Stock-based Compensation Plans

The Company accounts for its stock-based compensation plans in accordance with the Compensation-Stock Compensation Topic of the ASC, which establishes accounting for stock-based awards granted in exchange for employee services. Accordingly, for employee awards which are expected to vest, stock-based compensation cost is measured at the grant date, based on the fair value of the award, and is recognized as expense on a straight-line basis over the requisite service period, which generally begins on the date the award is granted through the date the award vests. Compensation expense associated with the stock-based compensation plans is included in other non cash items on the consolidated statement of cash flows.

(q) Employee Benefit Plans

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

(r) Business Segments

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

(s) Other Long-Term Liabilities

On the Effective Date, the Company recorded $13.0 million in unfavorable union contracts and $0.7 million in unfavorable leasehold agreements, each of which resulted from agreements with contract rates in excess of market value rates as of the Effective Date. Amortization is recognized on a straight-line basis over the remaining term of the agreements, ranging from 1 to 7 years, as a reduction of employee expense and rent expense within operating expenses.

(4) Recent Accounting Pronouncements

In June 2011, the FASB issued ASU 2011-05 related to the presentation of comprehensive income which eliminates the option to present the components of other comprehensive income as part of the statement of changes in stockholders' equity. This ASU requires that all non-owner changes in stockholders' equity be presented in either a single continuous statement of comprehensive income or in two separate but consecutive statements. This new guidance is to be applied retrospectively, and is effective for interim and annual periods beginning after December 15, 2011, with early adoption permitted. In December 2011, the FASB issued ASU 2011-12 which deferred the elective date for amendments to the presentation of reclassification of items out of accumulated other comprehensive income in ASU 2011-05. The Company does not expect this amendment to the ASC to have a material impact on its consolidated financial statements.

In May 2011, the FASB issued ASU 2011-04 related to achieving common fair value measurements and disclosure requirements between U.S. GAAP and International Financial Reporting Standards ("IFRS"). This ASU changes the wording used to describe many of the requirements in U.S. GAAP for measuring fair value and for disclosing information about fair value measurements to ensure consistency between U.S. GAAP and IFRS. The ASU also expands the disclosures for fair value measurements that are estimated using significant unobservable (Level 3) inputs. This new guidance is to be applied prospectively, and is effective for interim and annual periods beginning after December 15, 2011. Early adoption is not permitted. The Company does not expect the adoption of this amendment to the ASC to have a material impact on its consolidated financial statements.

On January 1, 2011, the Company adopted ASU 2010-28 regarding when to perform step 2 of the goodwill impairment test for reporting units with zero or negative carrying amounts. This ASU modifies step 1 of the goodwill impairment test for reporting units with zero or negative carrying amounts. For those reporting units, an entity is required to perform step 2 of the goodwill impairment test if it is more likely than not that a goodwill impairment exists. In determining whether it is more likely than not that a goodwill impairment exists, an entity should consider whether there are any adverse qualitative factors indicating an impairment may exist. The qualitative factors are consistent with the previously existing guidance, which required that goodwill of a reporting unit be tested for impairment between annual tests if an event occurs or circumstances change that would more likely than not reduce the fair value of a reporting unit below its carrying amount. For public entities, the amendments in this ASU are effective for fiscal year, and interim periods within those years, beginning after December 15, 2010. The adoption of this amendment to the ASC did not have a material impact on the Company's consolidated financial statements.

In October 2009, the FASB issued ASU 2009-13 regarding revenue recognition for multiple deliverable arrangements. This method allows a vendor to allocate revenue in an arrangement using its best estimate of selling price if neither vendor specific objective evidence nor third party evidence of selling price exists. Accordingly, the residual method of revenue allocation will no longer be permissible. This ASU must be adopted no later than the beginning of the first fiscal year beginning on or after June 15, 2010. The adoption of this amendment to the ASC did not have a material impact on the Company's consolidated financial statements.

(5) Dividends

The Company currently does not pay a dividend on the New Common Stock and does not expect to reinstate the payment of dividends in the foreseeable future.

(6) Goodwill and Other Intangible Assets

Goodwill

At December 31, 2010, the Company had goodwill of $595.1 million. In connection with the Company's adoption of fresh start accounting on the Effective Date, goodwill of the Predecessor Company was eliminated. On the Effective Date, the Company recorded $256.0 million of goodwill in connection with the Company's adoption of fresh start accounting. During the second quarter of 2011, the Company made a $12.8 million reclassification adjustment to Property, Plant and Equipment based on fresh start accounting guidance which reduced the goodwill to $243.2 million.

At September 30, 2011, as a result of the significant sustained decline in the Company's stock price since the Effective Date, which had caused the Company's market capitalization to be below its book value, the Company determined that a possible impairment of goodwill was indicated and concluded that an interim goodwill impairment test was necessary. In step one, the Company calculated the discounted cash flows to arrive at a fair value, which was then compared to the carrying value, including goodwill. A combination of expected cash flows and higher discount rates resulted in the fair value, using the discounted cash flow method, being less than the carrying value, at which point the company proceeded to step two, as outlined above. Results of the impairment test required the Company to record an impairment charge reducing the carrying value of the goodwill to zero at September 30, 2011. This non-cash impairment charge has no impact on the Company's compliance with the covenants contained in the Credit Agreement.

Other Intangible Assets

In connection with the Company's adoption of fresh start accounting on the Effective Date, intangible assets and related accumulated amortization of the Predecessor Company were eliminated. Intangible assets of the Successor Company were identified and valued at their fair value, as determined by valuation specialists. The Company's intangible assets are as follows (in thousands):

	Successor Company At December 31, 2011	Predecessor Company At December 31, 2010
Customer lists *(weighted average 9.0 years and 9.7 years for Successor Company and Predecessor Company, respectively)*:		
Gross carrying amount	$ 99,000	$ 208,504
Less accumulated amortization	(10,290)	(62,073)
Net customer lists	88,710	146,431
Trade name *(indefinite life)*:		
Gross carrying amount	58,000	42,816
Less impairment charge	(18,831)	—
Adjusted carrying amount	39,169	42,816
Favorable leasehold agreements *(weighted average 2.7 years)*:		
Gross carrying amount	410	—
Less accumulated amortization	(144)	—
Net favorable leasehold agreements	266	—
Total intangible assets, net *(weighted average 8.9 years and 9.7 years for Successor Company and Predecessor Company, respectively)*	$128,145	$189,247

See notes 3(j) and 3(n) for more information on the intangible assets impairment assessments.

Amortization expense was $10.4 million, $1.5 million, $22.6 million and $22.6 million for the 341 days ended December 31, 2011, the 24 days ended January 24, 2011 and the years ended December 31, 2010 and 2009, respectively, and is expected to be approximately $11.2 million in 2012, $11.1 million in 2013 and $11.0 million in 2014, 2015 and 2016, respectively.

(7) Property, Plant and Equipment

A summary of property, plant and equipment is shown below (in thousands):

	Estimated life	Successor Company December 31, 2011	Predecessor Company December 31, 2010
	(in years)		
Land	—	$ 37,659	$ 23,880
Buildings and leasehold improvements	2 – 45	186,941	328,822
Central office equipment	5 – 11	452,639	2,467,286
Outside communications plant	15 – 50	1,002,422	3,009,886
Furniture, vehicles and other work equipment	3 – 15	150,373	350,242
Plant under construction	—	102,872	50,619
Other	—	10,649	43,877
Total property, plant and equipment		1,943,555	6,274,612
Accumulated depreciation		(280,490)	(4,414,912)
Net property, plant and equipment		$1,663,065	$ 1,859,700

Depreciation expense, excluding amortization of intangible assets, for the 341 days ended December 31, 2011, the 24 days ended January 24, 2011 and the years ended December 31, 2010, and 2009 was $326.5 million, $20.1 million, $267.3 million and $252.7 million, respectively. Depreciation expense includes amortization of assets recorded under capital leases.

(8) Interest Rate Swap Agreements

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

The Company uses variable-rate debt to finance its operations, capital expenditures and acquisitions. The variable-rate debt obligations expose the Company to variability in interest payments due to changes in interest rates. The Company believes it is prudent to limit the variability of a portion of its interest payments. To meet this objective, from time to time, the Company enters into interest rate swap agreements to manage fluctuations in cash flows resulting from interest rate risk.

As of December 31, 2011, the Company was not party to any interest rate swap agreements since the current variable to fixed swap market rates were substantially below the LIBOR floor contained in the Credit Agreement.

As of December 31, 2010 and 2009, the Company was party to interest rate swap agreements under the ISDA Master Agreement with Wachovia Bank, N.A., dated as of December 12, 2000, as amended and restated as of February 1, 2008, and the ISDA Master Agreement with Morgan Stanley Capital Services Inc., dated as of February 1, 2005 (collectively, the “Swaps”) which effectively changed the variable rate on the debt obligations to a fixed rate. Under the terms of the Swaps, the Company was required to make a payment if the variable rate was below the fixed rate, or it received a payment if the variable rate was above the fixed rate. At December 31, 2010 and 2009, the carrying value of the Swaps was a net liability of approximately $98.8 million, all of which was included in liabilities subject to compromise as a result of the filing of the Chapter 11 Cases. The Company recognized no gain or loss on derivative instruments on the consolidated statement of operations during the year ended December 31, 2010. The Company recognized a $12.3 million gain on derivative instruments as a result of changes in the fair value of the Swaps during the year ended December 31, 2009. In addition, during the year ended December 31, 2009, the Company recognized a loss of approximately $10.3 million through reorganization items related to the termination of the swaps as a result of the event of default due to failure to make payments of $14.0 million due under the Swaps on September 30, 2009 and lack of compliance with the interest coverage ratio maintenance covenant and the leverage ratio maintenance covenant at June 30, 2009. The $98.8 million carrying value of the Swaps represented the termination value of the Swaps as determined by the respective counterparties following the filing of the Chapter 11 Cases. The Swaps were terminated on the Effective Date.

The Company had determined that the Swaps did not meet the criteria for hedge accounting. Therefore, changes in fair value of the Swaps were recorded as other income (expense) on the consolidated statement of operations. Following the filing of the Chapter 11 Cases, the Swaps retained their termination value and no gain or loss on derivative instruments was recorded to the consolidated statement of operations.

(9) Long-term Debt

Long-term debt for the Company at December 31, 2011 and 2010 is shown below (in thousands):

	Successor Company December 31, 2011	Predecessor Company December 31, 2010
Senior secured credit facility, variable rates ranging from 6.75% to 7.00% *(weighted average rate of 6.94%)* at December 31, 2010, due 2014 to 2015	$ —	$ 1,970,963
Senior secured credit facility, variable rate of 6.50% *(weighted average rate of 6.50%)* at December 31, 2011, due 2016	1,000,000	—
Senior notes, 13.125%, due 2018	—	549,996
Total outstanding long-term debt	1,000,000	2,520,959
Less amounts subject to compromise	—	(2,520,959)
Total long-term debt, net of amounts subject to compromise	$ 1,000,000	$ —
Less current portion	(10,000)	—
Total long-term debt, net of current portion	$ 990,000	$ —

The estimated fair value of the Company's long-term debt at December 31, 2011 and 2010 was approximately $795.0 million and $1,539.7 million respectively, based on market prices of the Company's debt securities at the respective balance sheet dates.

As of December 31, 2011, the Company had $62.6 million, net of $12.4 million outstanding letters of credit, available for additional borrowing under the Revolving Facility.

As a result of the filing of the Chapter 11 Cases (see note 2), all pre-petition debts owed by the Company under the Pre-Petition Credit Facility and the Pre-Petition Notes were classified as liabilities subject to compromise in the consolidated balance sheet as of December 31, 2010.

Pursuant to the Plan, the Company did not make any principal or interest payments on its pre-petition debt during the pendency of the Chapter 11 Cases. In accordance with the Reorganizations Topic of the ASC, as interest on the Pre-Petition Notes subsequent to the Petition Date was not expected to be an allowed claim, the Company did not accrue interest expense on the Pre-Petition Notes during the pendency of the Chapter 11 Cases. Accordingly, $4.8 million, $72.2 million and $13.4 million, respectively, of interest on unsecured debts, at the stated contractual rates, was not accrued during the 24 days ended January 24, 2011, the year ended December 31, 2010 and the sixty-six days ended December 31, 2009. The Company continued to accrue interest expense on the Pre-Petition Credit Facility, as such interest was considered an allowed claim per the Plan.

All pre-petition debt was terminated on the Effective Date.

The approximate aggregate maturities of long-term debt for each of the five years subsequent to December 31, 2011 are as follows (in thousands):

Year ending December 31,	Successor Company
2012	$ 10,000
2013	10,000
2014	25,000
2015	37,500
2016	917,500
Thereafter	—
	$1,000,000

Credit Agreement

On the Effective Date, the Borrowers entered into the Credit Agreement Loans. On the Effective Date, the Company paid to the lenders providing the Revolving Facility an aggregate fee equal to $1.5 million. Interest on the Credit Agreement Loans accrues at an annual rate equal to either (a) LIBOR plus 4.50%, with a minimum LIBOR floor of 2.00% for the Term Loan, or (b) a base rate plus 3.50% per annum, which base rate is equal to the highest of (x) Bank of America's prime rate, (y) the federal funds effective rate plus 0.50% and (z) applicable LIBOR (with minimum LIBOR floor of 2.00%) plus 1.00%. In addition, the Company is required to pay a 0.75% per annum commitment fee on the average daily unused portion of the Revolving Facility. The entire outstanding principal amount of the Credit Agreement Loans is due on the Maturity Date; provided that on the third anniversary of the Effective Date, the Company must elect (subject to the absence of events of default under the Credit Agreement) to continue the maturity of the Revolving Facility and must pay a continuation fee of $0.75 million and, on the fourth anniversary of the Effective Date, the Company must elect (subject to the absence of events of default under the Credit Agreement) to continue the maturity of the Revolving Facility and must pay a second continuation fee of $0.75 million. The Credit Agreement requires quarterly repayments of principal of the Term Loan after the first anniversary of the Effective Date. In the second and third years following the Effective Date, such quarterly payments shall each be in an amount equal to $2.5 million; during the fourth year following the Effective Date, such quarterly payments shall each be in an amount equal to $6.25 million; and for the first three quarters during the fifth year following the Effective Date, such quarterly payments shall each be in an amount equal to $12.5 million, with all remaining outstanding amounts owed in respect of the Term Loan being due and payable on the Maturity Date.

The Credit Agreement Loans are guaranteed by all of the Financing Loan Parties. The Credit Agreement Loans as a whole are secured by liens upon substantially all existing and after-acquired assets of the Financing Loan Parties, with first lien and payment waterfall priority for the Revolving Facility and second lien priority for the Term Loan.

The Credit Agreement contains customary representations, warranties and affirmative covenants. In addition, the Credit Agreement contains restrictive covenants that limit, among other things, the ability of the Company to incur indebtedness, create liens, engage in mergers, consolidations and other fundamental changes, make investments or loans, engage in transactions with affiliates, pay dividends, make capital expenditures and repurchase capital stock. The Credit Agreement also contains minimum interest coverage and maximum total leverage maintenance covenants, along with a maximum senior leverage covenant measured upon the incurrence of certain types of debt. The ratios measured in these covenants, which are reported quarterly, periodically adjust to become more restrictive as set forth in the Credit Agreement. The initial adjustment for each of the three covenants will be reflected in the quarterly covenant reporting for the third quarter of 2013. The Credit Agreement contains certain events of default, including failure to make payments, breaches of covenants and representations, cross defaults to other material indebtedness, unpaid and uninsured judgments, changes of control and bankruptcy events of default. The lenders' commitments to fund amounts under the Revolving Facility are subject to certain customary conditions. As of December 31, 2011, the Borrowers were in compliance with all covenants under the Credit Agreement.

The Credit Agreement also provides for mandatory prepayments of outstanding balances on the Credit Agreement Loans with the proceeds from certain asset dispositions, certain equity and debt issuances, and certain extraordinary cash receipts. Proceeds from such events may be reinvested by the Borrowers in lieu of any such mandatory prepayment under certain circumstances. In addition, at the end of each fiscal year, a test is performed to determine if excess cash flow, as defined in the Credit Agreement, was generated during the year. If the calculation indicates that excess cash flow was generated, a certain percentage (determined by reference to the total leverage ratio) of such excess cash flow is required to be prepaid against outstanding balances. Any mandatory prepayments are first applied to the Revolving Facility until repaid and then to the Term Loan.

Letters of credit outstanding under the DIP Credit Agreement on the Effective Date were rolled into the Revolving Facility.

Debtor-in-Possession Financing

In connection with the Chapter 11 Cases, the DIP Borrowers entered into the DIP Credit Agreement with the DIP Lenders and the DIP Administrative Agent. The DIP Credit Agreement provided a revolving facility in an aggregate principal amount of up to $75.0 million, of which up to $30.0 million was also available in the form of one or more letters of credit that could be issued to third parties for the DIP Borrowers' account (the "DIP Financing"). Pursuant to the Order of the Bankruptcy Court, dated October 28, 2009 (the "Interim Order"), the DIP Borrowers were authorized to enter into and immediately draw upon the DIP Credit Agreement on an interim basis, pending a final hearing before the Bankruptcy Court, in an aggregate amount of $20.0 million. On March 11, 2010 the Bankruptcy Court issued the Final DIP Order, permitting the DIP Borrowers access to the total $75.0 million of the DIP Financing, subject to the terms and conditions of the DIP Credit Agreement and related orders of the Bankruptcy Court, of which up to $30.0 million was available in the form of one or more letters of credit that could be issued to third parties for the DIP Borrowers' account.

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

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

The DIP Credit Agreement provided for the payment to the DIP Administrative Agent, for the pro rata benefit of the DIP Lenders, of an upfront fee in the aggregate principal amount of $1.5 million, which upfront fee was payable in two installments: (1) the first installment of $0.4 million was due and payable on October 28, 2009, the date on which the Interim Order was entered by the Bankruptcy Court and (2) the remainder of the upfront fee was due and payable on the date the Final DIP Order was entered by the Bankruptcy Court. The DIP Credit Agreement also provided for an unused line fee of 0.50% on the unused revolving commitment, payable monthly in arrears on the last business day of each month (or on the date of maturity, whether by acceleration or otherwise), and a letter of credit facing fee of 0.25% per annum calculated daily on the stated amount of all outstanding letters of credit.

As of December 31, 2010, the Company had not borrowed any amounts under the DIP Credit Agreement; however, letters of credit had been issued under the DIP Credit Agreement for $18.7 million. Accordingly, as of December 31, 2010, the amount available under the DIP Credit Agreement was $56.3 million.

The DIP Credit Agreement was terminated on the Effective Date. All letters of credit outstanding under the DIP Credit Agreement were transferred to the Credit Agreement on the Effective Date.

(10) Employee Benefit Plans

The Company sponsors noncontributory qualified pension plans and post-retirement healthcare plans which provide certain cash payments and medical and dental benefits to covered retired employees and their beneficiaries and covered dependents. These plans were assumed as part of the acquisition of our Northern New England operations from Verizon. One pension plan and one post-retirement healthcare plan cover non-represented employees and both are frozen, therefore no new benefits are being earned by participants nor are new participants becoming eligible for benefits. Participants in the pension plan and the post-retirement healthcare plan covering represented employees continue to accrue benefits in accordance with the respective plan documents and contractual requirements in the collective bargaining agreements. Eligibility to participate in the plans is based on an employee's age and years of service. The Company makes contributions to the pension plans in amounts sufficient to meet minimum ERISA funding requirements. Payments of benefits under the post-retirement healthcare plans are funded by the Company as benefits are paid.

Annually, the Company remeasures the net liabilities of its pension and other post-retirement healthcare benefits, in accordance with the Compensation —Retirement Benefits Topic of the ASC. These remeasurements were based on a weighted average discount rate of approximately 4.65% and 5.61%, respectively, as well as certain other valuation assumption modifications. In addition, in conjunction with fresh start accounting, the Company remeasured the net liabilities of its pension and other post-retirement healthcare benefits as of the Effective Date using a weighted average discount rate of approximately 5.80%. See note 2.

Obligations and funded status

A summary of plan assets, projected benefit obligation and funded status of the plans are as follows for the 341 days ended December 31, 2011, the 24 days ended January 24, 2011 and the year ended December 31, 2010 (in thousands):

	Qualified Pension Plans		
	Successor Company	Predecessor Company	
	Three Hundred Forty-One Days Ended December 31, 2011	Twenty-Four Days Ended January 24, 2011	Year Ended December 31, 2010
Fair value of plan assets:			
Beginning fair value of plan assets	$ 177,555	$ 176,474	$ 162,604
Actual return on plan assets	1,786	1,119	18,180
Plan settlements	(5,661)	—	—
Employer contributions	6,788	—	—
Benefits paid	(20,175)	(38)	(4,310)
Ending fair value of plan assets	160,293	177,555	176,474
Projected benefit obligation:			
Beginning projected benefit obligation	$ 259,267	$ 265,760	$ 205,234
Service cost	11,885	849	11,187
Interest cost	12,882	934	12,963
Plan curtailments	(4,701)	—	—
Plan settlements	(5,661)	—	—
Benefits paid	(20,175)	(38)	(4,310)
Actuarial loss (gain)	64,757	(8,238)	40,686
Ending projected benefit obligation	318,254	259,267	265,760
Plan assets less than projected benefit obligation	$ (157,961)	$ (81,712)	$ (89,286)
Accumulated benefit obligation	$ 283,353	$ 259,200	265,688
Amounts recognized in the consolidated balance sheets:			
Non-current assets	$ —	$ 3,416	$ 2,960
Current liabilities	—	—	—
Non-current liabilities	(157,961)	(85,128)	(92,246)
Net amount recognized	$ (157,961)	$ (81,712)	$ (89,286)
Amounts recognized in accumulated other comprehensive income (loss):			
Prior service cost	$ —	$ (17,043)	$ (17,141)
Net actuarial loss	(70,861)	(109,228)	(117,749)
Net amount recognized in accumulated other comprehensive loss	$ (70,861)	$(126,271)	$ (134,890)

	Post-retirement Healthcare		
	Successor Company	Predecessor Company	
	Three Hundred Forty-One Days Ended December 31, 2011	Twenty-Four Days Ended January 24, 2011	Year Ended December 31, 2010
Fair value of plan assets:			
Beginning fair value of plan assets	$ 215	$ 214	$ —
Actual return on plan assets	(8)	1	(1)
Plan settlements	—	—	—
Employer contributions	2,601	182	1,735
Benefits paid	(1,847)	(182)	(1,520)
Ending fair value of plan assets	961	215	214
Projected benefit obligation:			
Beginning projected benefit obligation	$ 333,301	$ 344,901	$ 260,330
Service cost	18,944	1,167	14,321
Interest cost	19,859	1,252	16,347
Plan curtailments	(1,812)	—	—
Plan settlements	—	—	—
Benefits paid	(1,847)	(182)	(1,520)
Actuarial loss (gain)	164,736	(13,837)	55,423
Ending projected benefit obligation	533,181	333,301	344,901
Plan assets less than projected benefit obligation	$ (532,220)	$ (333,086)	$ (344,687)
Accumulated benefit obligation	$ N/A	$ N/A	N/A
Amounts recognized in the consolidated balance sheets:			
Non-current assets	$ —	$ —	$ —
Current liabilities	(3,777)	(2,305)	(2,515)
Non-current liabilities	(528,443)	(330,781)	(342,172)
Net amount recognized	$ (532,220)	$ (333,086)	$ (344,687)
Amounts recognized in accumulated other comprehensive income (loss):			
Prior service cost	$ —	$ (29,150)	$ (29,426)
Net actuarial loss	(161,718)	(113,455)	(127,660)
Net amount recognized in accumulated other comprehensive loss	$ (161,718)	$(142,605)	$(157,086)

The determination of the net liability and the net periodic benefit cost recognized for the qualified pension plans and post-retirement healthcare plans by the Company are, in part, based on assumptions made by management. These assumptions include, among others, the discount rate applied to estimated future cash flows of the plans, the expected return on assets held by the plan, certain demographic characteristics of the participants such as expected retirement and mortality dates and future inflation in healthcare costs. Certain assumptions, which include, among others, assumptions regarding future benefit increases and increases in the amount of post-retirement healthcare expenditures to be paid by the Company, reflect the Company's past practice of providing such increases to participants and therefore are considered a substantive plan under the Compensation-Retirement Benefits Topic of the ASC.

During the three months ended March 31, 2010, $33.3 million was transferred from Verizon's qualified pension plans' trusts to the Company's pension plan trust. As of December 31, 2009, a disputed amount was pending final validation by a third-party actuary of the census information and related actuarial calculations in accordance with relevant statutory and regulatory guidelines and the Employee Matters Agreement, dated January 15, 2007 between Verizon and the Company (the "Employee Matters Agreement"). The disputed amount was not included in the Company's pension plan assets at December 31, 2009. By letter dated July 29, 2010, the third-party actuary appointed to perform the review and validation determined that an additional $2.5 million, adjusted for gains or losses since the date of the original transfer, should be transferred from Verizon's qualified pension plans' trusts to the Company's pension plan trust for represented employees. This transfer was received in the amount of $2.4 million on September 1, 2010, at which time the Company's net pension obligation was decreased by this amount.

The plans' portfolio strategy emphasizes a long-term equity orientation, global diversification and financial and operating risk controls. The plans' diversification seeks to minimize the concentration of risk. Assets are allocated according to long-term risk and return estimates. Both active and passive management approaches are used depending on perceived market efficiencies and various other factors.

The fair values for the pension plans by asset category at December 31, 2011 are as follows:

Successor Company (In thousands)	Total	Level 1	Level 2	Level 3
Cash and cash equivalents	$ 11,002	$ 11,002	$ —	$ —
Equity securities	61,922	44,746	17,176	—
Fixed income securities	65,009	31,347	33,662	—
Hedge funds	22,360	—	—	22,360
Total	$160,293	$87,095	$ 50,838	$22,360

The fair values for the pension plans by asset category at January 24, 2011 were as follows:

Successor Company (In thousands)	Total	Level 1	Level 2	Level 3
Cash and cash equivalents	$ 4,814	$ 4,814	$ —	$ —
Equity securities	87,031	55,980	31,051	—
Fixed income securities	63,603	21,881	41,722	—
Hedge funds	22,107	—	—	22,107
Total	$177,555	$82,675	$72,773	$22,107

The fair values for the pension plans by asset category at December 31, 2010 were as follows:

Predecessor Company (In thousands)	Total	Level 1	Level 2	Level 3
Cash and cash equivalents	$ 5,111	$ 5,111	$ —	$ —
Equity securities	85,886	85,886	—	—
Fixed income securities	63,546	21,823	41,723	—
Hedge funds	21,931	—	—	21,931
Total	$176,474	112,820	41,723	21,931

A reconciliation of the beginning and ending balance of pension plan assets that are measured at fair value using significant unobservable (Level 3) inputs for the year ended December 31, 2010, the 24 days ended January 24, 2011 and the 341 days ended December 31, 2011 is as follows (in thousands):

	Hedge Funds	Funds Receivable from Verizon	Other Assets	Total
Balance at December 31, 2009 (Predecessor Company)	$ 14,202	$ 33,553	$ 2,263	$ 50,018
Actual gain (loss) on plan assets held	(171)	—	68	(103)
Actual gain (loss) on plan assets sold during the period	—	—	—	—
Purchases and sales	—	—	—	—
Transfers in and/or out of Level 3	7,900	(33,553)	(2,331)	(27,984)
Balance at December 31, 2010 (Predecessor Company)	$21,931	$ —	$ —	$ 21,931
Actual gain (loss) on plan assets held	176	—	—	176
Actual gain (loss) on plan assets sold during the period	—	—	—	—
Purchases and sales	—	—	—	—
Transfers in and/or out of Level 3	—	—	—	—
Balance at January 24, 2011 (Predecessor Company)	22,107	—	—	22,107
Actual gain (loss) on plan assets held	253	—	—	253
Actual gain (loss) on plan assets sold during the period	—	—	—	—
Purchases and sales	—	—	—	—
Transfers in and/or out of Level 3	—	—	—	—
Balance at December 31, 2011 (Successor Company)	$ 22,360	—	—	22,360

Cash and cash equivalents include short-term investment funds, primarily in diversified portfolios of investment grade money market instruments and are valued using quoted market prices, and thus classified within Level 1 of the fair value hierarchy.

Equity securities include direct holdings of equity securities and units held of mutual funds that invest in equity securities of domestic and international corporations in a variety of industry sectors. The direct holdings and units held in publicly traded mutual funds are valued using quoted market prices and are classified within Level 1 of the fair value hierarchy. Fair values for units held in mutual funds that invest in equity securities that are not publicly traded are based on observable prices and are classified within Level 2 of the fair value hierarchy.

Fixed income securities are investments in mutual funds that invest in corporate bonds and other debt instruments. Units held in publicly traded mutual funds that invest in fixed income securities are valued using quoted market prices and are classified within Level 1 of the fair value hierarchy. Fair values of mutual funds that invest in fixed income securities that are not publicly traded are based on observable prices and are classified within Level 2 of the fair value hierarchy.

Hedge funds seek to maximize absolute returns using a broad range of strategies to enhance returns and provide diversification. The fair values of hedge funds are estimated using net asset value per share of the investments. The Company has the ability to redeem these investments at NAV on a limited basis, and thus has classified hedge funds within Level 3 of the fair value hierarchy.

The plan assets for the postretirement healthcare plans are invested in short-term investment funds, primarily in diversified portfolios of investment grade money market instruments and are valued using quoted market prices, and thus classified within Level 1 of the fair value hierarchy.

Net periodic benefit cost

Components of the net periodic benefit cost related to the Company's pension and post-retirement healthcare plans for the 341 days ended December 31, 2011, the 24 days ended January 24, 2011 and the years ended December 31, 2010 and 2009 are presented below (in thousands).

	Qualified Pension Plans			
	Successor Company	Predecessor Company		
	Three Hundred Forty-One Days ended December 31, 2011	Twenty-Four Days ended January 24, 2011	Year ended December 31, 2010	Year ended December 31, 2009
Service cost	$ 11,885	$ 849	$ 11,187	$ 10,923
Interest cost	12,882	934	12,963	13,269
Expected return on plan assets	(13,303)	(1,089)	(16,664)	(20,575)
Amortization of prior service cost	—	98	1,524	1,452
Amortization of actuarial loss	—	283	2,087	813
Settlement loss	712	—	—	18,420
Net periodic benefit cost	$ 12,176	$ 1,075	$ 11,097	$ 24,302

	Post-retirement Healthcare			
	Successor Company	Predecessor Company		
	Three Hundred Forty-One Days ended December 31, 2011	Twenty-Four Days ended January 24, 2011	Year ended December 31, 2010	Year ended December 31, 2009
Service cost	$ 18,944	$ 1,167	$ 14,321	$ 13,020
Interest cost	19,859	1,252	16,347	13,889
Expected return on plan assets	(13)	(1)	(3)	—
Amortization of prior service cost	—	276	4,289	4,293
Amortization of actuarial loss	303	368	3,474	3,487
Curtailment loss	925	—	—	—
Net periodic benefit cost	$ 40,018	$ 3,062	$ 38,428	$ 34,689

Other pre-tax changes in plan assets and benefit obligations recognized in other comprehensive (income) loss are as follows for the 341 days ended December 31, 2011, the 24 days ended January 24, 2011 and the years ended December 31, 2010 and 2009 (in thousands):

	Qualified Pension Plans			
	Successor Company	Predecessor Company		
	Three Hundred Forty-One Days ended December 31, 2011	Twenty-Four Days ended January 24, 2011	Year ended December 31, 2010	Year ended December 31, 2009
Amounts recognized in other comprehensive income (loss):				
New prior service cost	$ —	$ —	$ —	$ —
Net loss arising during the period	71,573	—	39,170	920
Amortization or curtailment of prior service cost	—	(98)	(1,524)	(1,452)
Amortization or settlement recognition of net loss	(712)	(8,550)	(2,087)	(19,233)
Total amount recognized in other comprehensive income (loss)	$ 70,861	$ (8,648)	$35,559	$(19,765)
Estimated amounts that will be amortized from accumulated other comprehensive income (loss) in the next fiscal year:				
Prior service cost	$ —	$ —	$ (126)	$ (1,524)
Net actuarial loss	(2,069)	—	(365)	(1,115)
Total amount estimated to be amortized from accumulated other comprehensive income (loss) in the next fiscal year	$ (2,069)	$ —	$ (491)	$ (2,639)

	Post-retirement Healthcare			
	Successor Company	Predecessor Company		
	Three Hundred Forty-One Days ended December 31, 2011	Twenty-Four Days ended January 24, 2011	Year ended December 31, 2010	Year ended December 31, 2009
Amounts recognized in other comprehensive income (loss):				
New prior service cost	$ —	$ —	$ —	$ —
Net loss arising during the period	162,021	—	55,427	12,524
Amortization or curtailment of prior service cost	—	(276)	(4,289)	(4,293)
Amortization or settlement recognition of net loss	(303)	(14,176)	(3,474)	(3,487)
Total amount recognized in other comprehensive income (loss)	$ 161,718	$ (14,452)	$ 47,664	$ 4,744
Estimated amounts that will be amortized from accumulated other comprehensive income (loss) in the next fiscal year:				
Prior service cost	$ —	$ —	$ (357)	$ (4,290)
Net actuarial loss	(6,727)	—	(475)	(3,110)
Total amount estimated to be amortized from accumulated other comprehensive income (loss) in the next fiscal year	$ (6,727)	$ —	$ (832)	$ (7,400)

The Company contributed $6.8 million to its qualified pension plans and $0.8 million to its post-retirement healthcare plans in 2011. In addition, the Company made $1.8 million in post-retirement healthcare plan expenditures in 2011. The Company's pension plan funding requirements are based on the Pension Protection Act of 2006 (the "PPA") and subsequent funding relief passed by Congress and regulations published by the IRS. Contributions to the post-retirement healthcare plans are required as the result of a regulatory settlement with the New Hampshire Public Utilities Commission ("NHPUC").

During the years ended December 31, 2010 and 2009, the Company did not make a contribution to the qualified pension plans, but did incur $1.5 million and $0.4 million, respectively, in post-retirement healthcare plan expenditures. In 2012, the Company expects to make contributions of $19.8 million and $5.5 million to its qualified pension plans and post-retirement healthcare plans, respectively.

Assumptions

The weighted average assumptions used in determining projected benefit obligations are as follows:

	Successor Company	Predecessor Company	
	Three Hundred Forty-One Days Ended December 31, 2011	Twenty-Four Days Ended January 24, 2011	Year Ended December 31, 2010
Qualified Pension			
Discount rate	4.63%	5.75%	5.56%
Rate of future increases in compensation (a)	3.00%	3.00%	3.00%
Post-retirement Healthcare			
Discount rate	4.66%	5.85%	5.65%
Rate of future increases in compensation (a)	4.00%	4.00%	4.00%

(a) Assumption only applies to the plans for represented employees as plans for non-represented employees are frozen.

The weighted average assumptions used in determining net periodic cost are as follows:

	Successor Company	Predecessor Company		
	Three Hundred Forty-One Days Ended December 31, 2011	Twenty-Four Days Ended January 24, 2011	Year ended December 31, 2010	2009
Qualified Pension				
Discount rate	5.75%	5.56%	6.00%	5.94%
Expected return on plan assets	8.32%	8.32%	8.32%	8.32%
Rate of compensation increase (a)	3.00%	3.00%	4.00%	4.00%
Post-retirement Healthcare				
Discount rate	5.85%	5.65%	6.13%	5.95%
Rate of compensation increase (a)	4.00%	4.00%	4.00%	4.00%
Healthcare cost trend rate assumed for participants under 65 next year	8.40%	7.50%	7.70%	8.00%
Healthcare cost trend rate assumed for participants over 65 next year	8.40%	7.90%	8.20%	8.50%
Rate that the cost trend rates ultimately declines to	4.50%	4.00%	4.00%	4.00%
Year that the rates reach the terminal rate	2030	2029	2029	2029

(a) Assumption only applies to the plans for represented employees as plans for non-represented employees are frozen.

In developing the expected long-term rate-of-return assumption, the Company evaluated historical investment performance and input from its investment advisors. Projected returns by such advisors were based on broad equity and bond indices. The expected long-term rate-of-return on qualified pension plan assets is based on target allocations of 20% equity and 80% fixed income securities for the non-represented employees plan and 70% equity and 30% fixed income securities for the represented employees plan. The asset allocation at December 31, 2011 (Successor Company) for the Company's qualified pension plan assets was as follows:

	Non-Represented Employees Plan	Represented Employees Plan	Total Qualified Pension Plans
Cash and cash equivalents (b)	1.4%	7.6%	6.1%
Equity securities	22.9%	63.1%	53.4%
Fixed income securities	75.7%	29.3%	40.5%
	100.0%	100.0%	100.0%

(b) Cash and cash equivalents includes only those amounts that are held in the respective plans' trusts as cash and cash equivalent instruments. Amounts pending purchase or settlement of equity or fixed income securities are classified within equity securities or fixed income securities, as appropriate.

For the years ended December 31, 2011 and 2010, the actual return on the pension plan assets was approximately 1.6% and 11.2%, respectively. Net periodic benefit cost for 2011 assumes a weighted average annualized expected return on plan assets of approximately 8.3%. For 2012, the weighted average annualized expected return on plan assets is approximately 7.52%. Should the Company's actual return on plan assets continue to be significantly lower than the expected return assumption, the net periodic benefit cost may increase in future periods and the Company may be required to contribute additional funds to its pension plans.

A 1% change in the medical trend rate assumed for post-retirement healthcare benefits at December 31, 2011 (Successor Company) would have the following effects (in thousands):

	Post-retirement Healthcare
1% increase in the medical trend rate:	
Effect on total service cost and interest cost components	$ 10,096
Effect on benefit obligation	$ 134,067
1% decrease in the medical trend rate:	
Effect on total service cost and interest cost components	$ (7,611)
Effect on benefit obligation	$ (101,149)

The impact of the Medicare Drug Act of 2003 subsidy on the post-retirement healthcare benefits at December 31, 2011 (Successor Company) is as follows (in thousands):

	Post-retirement Healthcare
Change in projected benefit obligation	$ 32,603
Change in each component of net periodic cost:	
Service cost	$ (1,145)
Interest cost	(1,170)
Amortization of loss	26
Curtailment gain	(1)
Total change in net periodic cost	$ (2,290)

Estimated future benefit payments

Estimated future employer contributions, benefit payments and Medicare prescription drug subsidies expected to offset the future post-retirement healthcare benefit payments as of December 31, 2011 (Successor Company) are as follows (in thousands):

	Qualified Pension Plans	Post-retirement Healthcare
Expected employer contributions for 2012	$ 19,842	$ 5,458
Expected benefit payments:		
2012	$ 3,618	$ 4,738
2013	14,657	5,739
2014	16,548	6,594
2015	5,174	7,900
2016	7,087	9,438
2017-2021	60,206	73,988
Expected subsidy:		
2012		$ 25
2013		37
2014		55
2015		84
2016		121
2017-2021		1,767

Table of Contents

401(k) savings plans

The Company and its subsidiaries sponsor four voluntary 401(k) savings plans that, in the aggregate, cover all eligible Telecom Group employees, and two voluntary 401(k) savings plans that, in the aggregate, cover all eligible Northern New England operations employees (collectively, “the 401(k) Plans”). Each 401(k) Plan year, the Company contributes to the 401(k) Plans an amount of matching contributions determined by the Company at its discretion for management employees and based on collective bargaining agreements for all other employees. For the 401(k) Plan years ended December 31, 2011, 2010 and 2009, the Company generally matched 100% of each employee’s contribution up to 5% of compensation. Total Company contributions to all 401(k) Plans were $9.8 million, $0.7 million, $10.4 million, and $9.8 million for the 341 days ended December 31, 2011, the 24 days ended January 24, 2011 and the years ended December 31, 2010 and 2009, respectively.

(11) Income Taxes

Income tax benefit (expense) for the 341 days ended December 31, 2011, the 24 days ended January 24, 2011 and the years ended December 31, 2010 and 2009 consists of the following components (in thousands):

	Successor Company	Predecessor Company		
	Three Hundred Forty-One Days Ended December 31, 2011	Twenty-Four Days Ended January 24, 2011	Year Ended December 31, 2010	Year Ended December 31, 2009
Current:				
Federal	$ 913	$ —	$ —	$ —
State and local	160	(21)	(732)	(240)
Total current income tax (expense) benefit	1,073	(21)	(732)	(240)
Investment tax credits	—	—	478	532
Deferred:				
Federal	49,001	(247,844)	3,246	69,704
State and local	3,202	(32,024)	4,669	9,018
Total deferred income tax benefit (expense)	52,203	(279,868)	7,915	78,722
Total income tax benefit (expense)	$ 53,276	$(279,889)	$7,661	$ 79,014

Total income tax (expense) benefit was different than that computed by applying U.S. Federal income tax rates to (loss) income before income taxes for the 341 days ended December 31, 2011, the 24 days ended January 24, 2011 and the years ended December 31, 2010 and 2009.

For the 341 day period ended December 31, 2011, the Successor Company's effective tax benefit rate on $468.2 million of pre-tax loss was 11.4%. The rate differs from the 35% federal statutory rate primarily due to an impairment charge reducing the carrying value of the Company's goodwill to zero and an increase in the Company's valuation allowance.

For the 24 day period ended January 24, 2011, the Predecessor Company's effective tax rate on $866.8 million of pre-tax income was 32.3%. The rate differs from the 35% federal statutory rate primarily due to the release of the valuation allowance and other miscellaneous reorganization adjustments.

The effective tax rate for the year ended December 31, 2010 was a 2.6% benefit. The effective tax rate was impacted by a one-time, non-cash income tax charge of $6.8 million during the first quarter of 2010, as a result of the enactment of the Patient Protection and Affordable Care Act and the Health Care and Education Reconciliation Act of 2010, both of which became law in March 2010 (collectively, the "Health Care Act"). The effective tax rate for the year ended December 31, 2010 was also impacted by non-deductible restructuring charges and post-petition interest, as well as a significant increase in the Company's valuation allowance for deferred tax assets due to its inability, by rule, to rely on future earnings to offset its NOLs during the Chapter 11 Cases.

The effective tax rate for the year ended December 31, 2009 was a 24.7% benefit. The effective tax rate was impacted by non-deductible restructuring charges and post-petition interest, as well as an increase in the Company's valuation allowance due to its inability, by rule, to rely on future earnings.

A reconciliation of the Company's statutory tax rate to its effective tax rate is presented below (in percentages):

	Successor Company	Predecessor Company		
			Year Ended December 31,	
	Three Hundred Forty-One Days Ended December 31, 2011	Twenty-Four Days Ended January 24, 2011	2010	2009
Statutory Federal income tax (benefit) rate	(35.0)%	35.0%	(35.0)%	(35.0)%
State income tax (benefit) expense, net of Federal income tax expense	(4.0)	4.3	(2.9)	(2.9)
Post-petition interest	—	0.4	16.6	2.7
Goodwill impairment	16.2	13.7	—	—
Non-taxable debt cancellation income	(9.3)	(12.3)	—	—
Investment tax credits	—	—	(0.2)	(0.1)
Restructuring charges	0.3	0.3	2.6	1.3
Medicare subsidy impact of law change	—	—	2.4	—
Other, net	1.2	(0.2)	(0.1)	0.8
Valuation allowance	19.2	(8.9)	14.0	8.5
Effective income tax (benefit) rate	(11.4)%	32.3%	(2.6)%	(24.7)%

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and deferred tax liabilities as of December 31, 2011 and 2010 are presented below (in thousands):

	Successor Company	Predecessor Company
	2011	2010
Deferred tax assets:		
Federal and state tax loss carryforwards	$ 77,765	$ 230,398
Employee benefits	282,868	179,904
Allowance for doubtful accounts	16,045	16,288
Investment tax credits	—	1,729
Alternative minimum tax and other state credits	4,144	7,315
Basis in interest rate swaps	—	7,087
Bond issuance costs	—	10,980
Service quality rebate reserve	3,002	8,333
Other, net	19,006	15,008
Total gross deferred tax assets	402,830	477,042
Deferred tax liabilities:		
Property, plant, and equipment	407,944	319,244
Goodwill and other intangible assets	38,235	81,165
Other, net	11,230	7,060
Total gross deferred tax liabilities	457,409	407,469
Net deferred tax (liabilities) assets before valuation allowance	(54,579)	69,573
Valuation allowance	(172,875)	(105,554)
Net deferred tax liabilities	$ (227,454)	$ (35,981)

Table of Contents

At December 31, 2011, the Company had gross federal NOL carryforwards of $199.0 million after taking into consideration the estimated NOL tax attribute reduction of $562.6 million resulting from the Company's discharge of indebtedness upon emergence from bankruptcy in 2011. The Company's remaining federal NOL carryforwards will expire from 2021 to 2031. At December 31, 2011, the Company had a net, after attribute reduction, state NOL deferred tax asset of $11.4 million. At December 31, 2011, the Company had no alternative minimum tax credits. Telecom Group completed an initial public offering on February 8, 2005, which resulted in an "ownership change" within the meaning of the U.S. Federal income tax laws addressing NOL carryforwards, alternative minimum tax credits, and other similar tax attributes. The Merger and the Company's emergence from the Chapter 11 Cases also resulted in ownership changes. As a result of these ownership changes, there are specific limitations on the Company's ability to use its NOL carryfowards and other tax attributes. It is the Company's belief that it can use the NOLs even with these restrictions in place.

During the 24 days ended January 24, 2011 the Company excluded from taxable income $1,045.4 million of income from the discharge of indebtedness as defined under Internal Revenue Code ("IRC") Section 108. There was no additional income from the discharge of indebtedness for the 341 days ended December 31, 2011, however the Company did recognize additional tax benefits due to a change in the amount of its deferred tax liability related to a tax attribute reduction front the discharge of indebtedness. IRC Section 108 excludes from taxable income the amount of indebtedness discharged under a Chapter 11 case. IRC Section 108 also requires a reduction of tax attributes equal to the amount of excluded taxable income to be made on the first day of the tax year following the emergence from bankruptcy. We have not finalized our assessment of the tax effects of the bankruptcy emergence and this estimate, as well as the Plan's effect on all tax attributes, is subject to revision, which could be significant.

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

At December 31, 2011 and 2010, the Company established a valuation allowance of $172.9 million and $105.6 million, respectively, against its deferred tax assets which consist of a $144.9 million and $85.1 million Federal allowance, respectively, and a $28.0 million and $20.5 million state allowance, respectively. During 2011, approximately $54.3 million of the increase in the Company's valuation allowance was allocated to accumulated other comprehensive loss in the consolidated balance sheet.

The Income Taxes Topic of the ASC requires the use of a two-step approach for recognizing and measuring tax benefits taken or expected to be taken in a tax return and disclosures regarding uncertainties in income tax positions. The unrecognized tax benefits under the Income Taxes Topic of the ASC are similar to the income tax reserves reflected prior to adoption under SFAS No. 5, *Accounting for Contingencies,* whereby reserves were established for probable loss contingencies that could be reasonably estimated. The adoption of the uncertainties in income tax positions provisions of the Income Taxes Topic of the ASC (formerly FIN 48) did not have a material impact on the Company's financial position or results of operations. The total unrecognized tax benefits that, if recognized, would affect the effective tax rate are $2.9 million. The Company does not expect a significant increase or decrease in its unrecognized tax benefits during the next twelve months. A reconciliation of the beginning and ending amount of unrecognized tax benefits is as follows (in thousands):

Balance as of December 31, 2009 (Predecessor Company)	$ 5,375
Additions for tax positions related to the current year	—
Additions for tax positions related to acquired companies	—
Additions for tax positions of prior years	—
Reductions for tax positions of prior years	—
Reductions as a result of audit settlements	—
Reductions due to lapse of statute of limitations	—
Balance as of December 31, 2010 (Predecessor Company)	$ 5,375
Additions for tax positions related to the current year	—
Additions for tax positions related to acquired companies	—
Additions for tax positions of prior years	—
Reductions for tax positions of prior years	—
Reductions as a result of audit settlements	—
Reductions due to lapse of statute of limitations	—
Balance as of January 24, 2011 (Predecessor Company)	$ 5,375
Additions for tax positions related to the current year	—
Additions for tax positions related to acquired companies	—
Additions for tax positions of prior years	1,907
Reductions for tax positions of prior years	(4,389)
Reductions as a result of audit settlements	—
Reductions due to lapse of statute of limitations	—
Balance as of December 31, 2011 (Successor Company)	$ 2,893

The Company recognizes any interest and penalties accrued related to unrecognized tax benefits in income tax expense. During the 341 days ended December 31, 2011, the 24 days ended January 24, 2011 and the years ended December 31, 2010 and 2009, the Company did not make any payment of interest and penalties. The Company had $1.0 million (after-tax) for the payment of interest and penalties accrued in the consolidated balance sheet at December 31, 2010. There was nothing accrued in the consolidated balance sheet for the payment of interest and penalties at December 31, 2011 as the remaining unrecognized tax benefits would only serve to reduce the Company's current federal and state NOL carryforwards, if ultimately recognized.

The Company or one of its subsidiaries files income tax returns in the U.S. federal jurisdiction, and with various state and local governments. The Company is no longer subject to U.S. federal, state and local, or non-U.S. income tax examinations by tax authorities for years prior to 2005. During the quarter ending June 30, 2009, Verizon received notification from the IRS that a tax position taken on their returns for the years 2000 through 2003 relating to FairPoint's acquired business was settled through acceptance of the filing position. As of December 31, 2011 and 2010, the Company does not have any significant additional jurisdictional tax audits.

(12) Accumulated Other Comprehensive Loss

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

	Successor Company	Predecessor Company
	December 31, 2011	December 31, 2010
Accumulated other comprehensive loss, net of taxes:		
Qualified pension and post-retirement healthcare plans	$(193,494)	$(212,804)
Total accumulated other comprehensive loss	$(193,494)	$(212,804)

Other comprehensive (loss) income for the 341 days ended December 31, 2011, the 24 days ended January 24, 2011 and the years ended December 31, 2010 and 2009 includes amortization of qualified pension and post-retirement healthcare plan related prior service costs and actuarial gains and losses included in Accumulated Other Comprehensive Loss.

(13) Earnings Per Share

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

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

	Successor Company	Predecessor Company		
	Three Hundred Forty-One Days Ended December 31, 2011	Twenty-Four Days Ended January 24, 2011	Year Ended December 31, 2010	Year Ended December 31, 2009
Weighted average number of common shares used for basic earnings per share	25,838	89,424	89,424	89,271
Effect of potential dilutive shares	—	271	—	—
Weighted average number of common shares and potential dilutive shares used for diluted earnings per share	25,838	89,695	89,424	89,271
Anti-dilutive shares excluded from the above reconciliation	4,764	712	983	2,750

Weighted average number of common shares used for basic earnings per share excludes 355,383, 16,666, 369,941 and 401,658 shares of restricted non-vested stock as of the 341 days ended December 31, 2011, the 24 days ended January 24, 2011 and the years ended December 31, 2010 and 2009, respectively. Since the Company incurred a loss for the 341 days ended December 31, 2011 and the years ended December 31, 2010 and 2009, all potentially dilutive securities are anti-dilutive for these periods and are, therefore, excluded from the determination of diluted earnings per share.

(14) Stockholders' Equity (Deficit)

On the Effective Date, the Company issued 25,659,877 shares of Common Stock and 3,458,390 Warrants to purchase Common Stock and reserved 610,309 shares and 124,012 Warrants for satisfaction of certain pending claims related to the Chapter 11 Cases. During the 341 days ended December 31, 2011 the Company issued 541,115 shares and 6,069 Warrants from this reserve. At December 31, 2011, 26,197,142 shares of Common Stock and 3,464,459 Warrants to purchase common stock were outstanding and 69,194 shares and 117,943 Warrants remained reserved for satisfaction of pending claims related to the Chapter 11 Cases.

The initial exercise price applicable to the Warrants is $48.81 per share of New Common Stock for which the Warrants may be exercised. The exercise price applicable to the Warrants is subject to adjustment upon the occurrence of certain events described in the Warrant Agreement. The Warrants may be exercised at any time on or before the seventh anniversary of the Effective Date.

(15) Stock-Based Compensation

Stock-based compensation expense recognized in the financial statements is as follows (in thousands):

	Successor Company	Predecessor Company		
	Three Hundred Forty-One Days Ended December 31, 2011	Twenty-Four Days Ended January 24, 2011	Year Ended December 31, 2010	Year Ended December 31, 2009
Amounts charged against income, before income tax benefit	$ 3,810	$ 5,499	$ 468	$2,052
Amount of related income tax benefit recognized in income	(1,552)	(2,220)	(188)	(825)
Total net income impact	$ 2,258	$ 3,279	$ 280	$1,227

At December 31, 2011, the Company had $8.3 million of stock-based compensation cost related to non-vested awards that will be recognized over a weighted average period of 2.1 years, all of which is related to awards granted under the Long Term Incentive Plan.

Stock-Based Compensation Plans of the Successor Company

The Long Term Incentive Plan provides for grants of up to 3,134,603 shares of New Common Stock awards, of which stock options and restricted stock awards can be granted. Stock options generally have a term of 10 years from the date of grant. On the Effective Date, certain of the Company's employees, a consultant of the Company and members of the New Board were granted stock options and/or restricted stock awards. Except for the unrestricted stock awarded to a consultant of the Company, the stock options and restricted stock awards granted on the Effective Date vested 25% on the Effective Date, with the remainder of these awards to vest in three equal annual installments, commencing on the first anniversary of the Effective Date, with accelerated vesting upon (x) a change in control, or (y) a termination of an award holder's employment either without cause (but only to the extent the vesting becomes at least 50%, plus an additional 25% for each full year of the award holder's employment after the first full year after the Effective Date) or due to the award holder's death or disability (but, for stock options, only to the extent vesting would have otherwise occurred within one year following such termination of employment). Stock of a consultant of the Company was 100% vested on the Effective Date. Subsequent to the Effective Date, through December 31, 2011, the Company granted an additional 13,800 restricted stock and 26,600 stock options. These grants generally have the same terms as the grants that occurred on the Effective Date except the restricted stock and stock options vest over three equal annual installments, with the first third vesting on the first anniversary of the grant date. As of December 31, 2011, there are 1,642,924 shares still available to be granted under the Long Term Incentive Plan.

Stock option activity under the Long Term Incentive Plan is summarized as follows:

	Options Outstanding	Weighted Average Exercise Price Per Share
Outstanding at January 24, 2011 (Predecessor Company)	—	—
Granted	991,012	$ 24.29
Exercised	—	—
Forfeited	—	—
Expired	—	—
Outstanding at January 24, 2011 (Successor Company)	991,012	$ 24.29
Granted	26,600	$ 24.29
Exercised	—	—
Forfeited	(69,875)	24.29
Expired	—	—
Outstanding at December 31, 2011	947,737	$ 24.29
Vested at December 31, 2011	250,403	$ 24.29

During the 24 days ended January 24, 2011 and 341 days ended December 31, 2011, the weighted average grant date fair value of stock options granted was $8.1 million and $0.1 million, respectively. For purposes of determining compensation expense, the grant date fair value per share of the stock options under the Long Term Incentive Plan was estimated using the Black-Scholes option pricing model which requires the use of various assumptions including the expected life of the option, expected dividend rate, expected volatility, and risk-free interest rate. Key assumptions used for determining the fair value of stock options granted during 2011 were as follows: expected life – 5.75 and 10.00 years; expected dividend rate – 0.00%; expected volatility – 45.0%; and risk-free interest rate – ranging from 2.29% to 3.17%. The 5.75-year expected life (estimated period of time outstanding) of stock options granted on the Effective Date was estimated using the 'Simplified Method' which utilizes the midpoint between the vesting date and the end of the contractual term. This method was utilized for the stock options granted on the Effective Date due to the lack of historical exercise behavior of the Company's employees. The stock options granted subsequent to the Effective Date through December 31, 2011 utilized an expected life of 10.00 years based on an expectation of when the Company believes the stock options will be exercised by employees. For all stock options granted during 2011, no dividends are expected to be paid over the term of the stock options resulting in the use of a zero expected dividend rate. The expected volatility rate for all stock options granted during 2011 is based on the observed historical and implied volatilities of comparable companies, which were adjusted to account for the various differences between the comparable companies and the Company. The risk free interest rate is specific to the date of grant. On the Effective Date, the risk-free interest rate was interpolated from the yields on the 5-year and 7-year U.S. Treasury bonds. For stock options granted after the Effective Date, the risk-free interest rate is based on the U.S. Treasury 10 year constant maturity market yield in effect at the time of the grant.

Based upon a fair market value of the Common Stock as of December 31, 2011 of $4.33 per share, the outstanding stock options, including those options that have vested, under the Long Term Incentive Plan do not have any intrinsic value. The outstanding options and vested options under the Long Term Incentive Plan each have a weighted average remaining contractual life of 9.1 years.

Restricted stock award activity under the Long Term Incentive Plan is summarized as follows:

	Awards Outstanding	Weighted Average Grant Date Fair Value Per Share
Non-vested at January 24, 2011 (Predecessor Company)	—	—
Granted	547,792	$ 18.53
Vested	(187,044)	18.53
Forfeited	—	—
Non-vested at January 24, 2011 (Successor Company)	360,748	$ 18.53
Granted	13,800	$ 11.52
Vested	(4,900)	17.87
Forfeited	(17,650)	18.53
Non-vested at December 31, 2011	351,998	$ 18.26

Except for the restricted stock awards granted on the Effective Date, the grant date fair value per share of the restricted stock awards under the Long Term Incentive Plan is calculated as the fair market value per share of the Common Stock on the date of grant. The grant date fair value per share of the restricted stock awarded on the Effective Date is equal to the fair value per share of the Company's Common Stock calculated in conjunction with fresh start accounting. During the 24 days ended January 24, 2011 and 341 days ended December 31, 2011, the weighted average grant date fair value of restricted stock awards granted was $10.2 million and $0.2 million, respectively.

Based upon the fair market values per share of the Common Stock on each respective date of vesting, the aggregate fair value of restricted stock which vested during the 24 days ended January 24, 2011 and 341 days ended December 31, 2011 was $3.5 million and $0.1 million, respectively.

Stock-Based Compensation Plans of the Predecessor Company

Pursuant to the Plan, all then outstanding equity interests of the Company, including but not limited to all outstanding shares of Common Stock, options and contractual or other rights to acquire any equity interests, were cancelled and extinguished on the Effective Date.

(a) 1998 Stock Incentive Plan

In August 1998, the Company adopted the FairPoint Communications, Inc. (formerly MJD Communications, Inc.) Stock Incentive Plan (the "1998 Plan"). The 1998 Plan provided for grants of up to 1,317,425 nonqualified stock options to executives and members of management, at the discretion of the compensation committee of the board of directors. Options vested in 25% increments on the second, third, fourth and fifth anniversaries of an individual grant. All options had a term of 10 years from date of grant. In the event of a change in control, outstanding options would vest immediately. Effective in February 2005, the Company could no longer grant awards under the 1998 Plan. In February 2007, triggered by certain events noted in the 1998 Plan, all options outstanding under the 1998 Plan were cancelled except for 47,373 options to purchase shares of Old Common Stock with an exercise price of $36.94 per share.

These stock options were granted by the Company prior to becoming a public company and therefore the Predecessor Company was accounting for these options under the prospective method under the Compensation – Stock Compensation Topic of the ASC. As of December 31, 2010, options to purchase 47,373 shares of Old Common Stock were fully vested and outstanding with a weighted average exercise price of $36.94 per share. There was no activity during the 24 days ended January 24, 2011.

On the Effective Date, all options outstanding under the 1998 Plan were cancelled due to the Company's emergence from bankruptcy.

(b) 2000 Employee Stock Incentive Plan

In May 2000, the Company adopted the FairPoint Communications, Inc. 2000 Employee Stock Incentive Plan (the "2000 Employee Stock Incentive Plan"). The 2000 Employee Stock Incentive Plan provided for grants to members of management of up to 1,898,521 options to purchase common stock, at the discretion of the compensation committee. During 2002, the Company amended the 2000 Employee Stock Incentive Plan to limit the number of shares available for grant to 448,236. In December 2003, the Company amended the 2000 Employee Stock Incentive Plan to allow for the grant to members of management of up to 1,898,521 shares of stock units in addition to shares available for stock options. Options granted under the 2000 Employee Stock Incentive Plan could have been either of two types: (i) incentive stock options and (ii) non-statutory stock options. Unless the compensation committee specified otherwise at the time of grant, any option granted under the 2000 Employee Stock Incentive Plan was a non-statutory stock option. Effective in February 2005, the Company could no longer grant awards under the 2000 Employee Stock Incentive Plan.

Under the 2000 Employee Stock Incentive Plan, unless otherwise determined by the compensation committee at the time of grant, participating employees were granted options to purchase common stock at exercise prices not less than the market value of the Company's common stock at the date of grant. Options had a term of 10 years from date of grant. Options vested in increments of 10% on the first anniversary, 15% on the second anniversary, and 25% on the third, fourth and fifth anniversaries of an individual grant. Stock units vested in increments of 33% on each of the third, fourth, and fifth anniversaries of the award. Subject to certain provisions, the Company could have canceled each option in exchange for a payment in cash of an amount equal to the excess of the fair value of the shares over the exercise price for such option. The Company did not exercise this right.

The 2000 Employee Stock Incentive Plan stock options and stock units were granted by the Company prior to becoming a public company and therefore the Predecessor Company was accounting for these awards under the prospective method under the Compensation – Stock Compensation Topic of the ASC. As of December 31, 2010, options to purchase 130,935 shares of Old Common Stock were fully vested and outstanding with a weighted average exercise price of $36.94 per share. There was no activity during the 24 days ended January 24, 2011.

On the Effective Date, all options outstanding under the 2000 Employee Stock Incentive Plan were cancelled due to the Company's emergence from bankruptcy.

(c) 2005 Stock Incentive Plan

In February 2005, the Company adopted the FairPoint Communications, Inc. 2005 Stock Incentive Plan (the "2005 Stock Incentive Plan"). The 2005 Stock Incentive Plan provided for the grant of up to 947,441 shares of non-vested stock, stock units and stock options to members of the Company's board of directors and certain key members of the Company's management. Shares granted to employees under the 2005 Stock Incentive Plan vested over periods ranging from three to four years and certain of these shares paid current dividends.

In March 2006, the Company's board of directors approved the grant of an additional 100,000 shares to the Company's chief executive officer. These shares were granted under the 2005 Stock Incentive Plan in two installments of 50,000 shares each on January 1, 2007 and January 1, 2008.

In 2005, the Company's board of directors approved an annual award to each of the Company's non-employee directors in the form of non-vested stock or stock units, at the recipient's option, issued under the 2005 Stock Incentive Plan. The non-vested stock and stock units vested in four equal quarterly installments on the first day of each of the first four calendar quarters following the grant date and the holders thereof were entitled to receive dividends from the date of grant, whether or not vested.

The fair value of the awards was calculated as the fair value of the shares on the date of grant. Beginning on January 1, 2006, the Company adopted the provisions of the Compensation – Stock Compensation Topic of the ASC using the modified prospective method for the awards under the 2005 Stock Incentive Plan as all awards were granted subsequent to the Company becoming public. Under this methodology, the Company was required to estimate expected forfeitures related to these grants and, for the non-dividend paying shares, the compensation expense is reduced by the present value of the dividends which were not paid on those shares prior to their vesting.

During the year ended December 31, 2009, 6,272 stock units were issued under the 2005 Stock Incentive Plan with a weighted average grant date fair value of less than $0.1 million. There was no activity during the year ended December 31, 2010. As of December 31, 2010, 79,781 stock units under the 2005 Stock Incentive Plan were outstanding with a weighted average grant date fair value of $11.24 per share. There was no activity during the 24 days ended January 24, 2011.

As of December 31, 2010, there were 16,666 shares of non-vested stock under the 2005 Stock Incentive Plan with a weighted average grant date fair value of $13.02 per share. There was no activity during the 24 days ended January 24, 2011.

On the Effective Date, all awards outstanding under the 2005 Stock Incentive Plan were cancelled due to the Company's emergence from bankruptcy.

(d) 2008 Long Term Incentive Plan

In March 2008, the Company adopted the FairPoint Communications, Inc. 2008 Long Term Incentive Plan (the "2008 Long Term Incentive Plan"). The 2008 Long Term Incentive Plan provided for the grant of up to 9,500,000 shares of non-vested stock, stock units and stock options to members of the Company's board of directors and certain key members of the Company's management. Shares granted to employees under the 2008 Long Term Incentive Plan vested over periods ranging from two to three years and certain of these shares pay current dividends.

In 2008, the Company's board of directors approved an annual award to each of the Company's non-employee directors in the form of non-vested stock or stock units, at the recipient's option, issued under the 2008 Long Term Incentive Plan. The non-vested stock and stock units will vest in four equal quarterly installments on the first day of each of the first four calendar quarters following the grant date and the holders thereof will be entitled to receive dividends from the date of grant, whether or not vested. The following table presents information regarding stock units granted to non-employee directors under the 2008 Plan (including stock units granted in lieu of dividends).

The fair value of the awards was calculated as the fair value of the shares on the date of grant. Beginning on January 1, 2006, the Company adopted the provisions of the Compensation – Stock Compensation Topic of the ASC using the modified prospective method for the awards under the 2005 Stock Incentive Plan as all awards were granted subsequent to the Company becoming public. Under this methodology, the Company is required to estimate expected forfeitures related to these grants and, for the non-dividend paying shares, the compensation expense is reduced by the present value of the dividends which were not paid on those shares prior to their vesting.

During the year ended December 31, 2009, 175,352 stock units were issued under the 2008 Stock Incentive Plan with a weighted average grant date fair value of $0.3 million. There was no activity during the year ended December 31, 2010. As of December 31, 2010, 175,352 stock units under the 2008 Stock Incentive Plan were outstanding with a weighted average grant date fair value of $1.79 per share. There was no activity during the 24 days ended January 24, 2011.

As of December 31, 2010, there were no shares of non-vested stock under the 2008 Stock Incentive Plan. There was no activity during the 24 days ended January 24, 2011.

On the Effective Date, all awards outstanding under the 2008 Stock Incentive Plan were cancelled due to the Company's emergence from bankruptcy.

Table of Contents

(e) 2009 CEO Compensation Plan

On June 10, 2009, the Company's compensation committee approved the award of certain equity incentives to David L. Hauser, the Company's then new Chairman and Chief Executive Officer, as an inducement to accept employment with the Company (the "Inducement Awards"). As provided in Mr. Hauser's employment agreement, dated June 11, 2009, the Inducement Awards included: (i) the Inducement Options; (ii) the Inducement Restricted Stock; and (iii) performance units for two performance periods beginning on July 1, 2009 and ending on December 31, 2010 and December 31, 2011, respectively (the "Inducement Performance Units"). The Inducement Options, totaling 1,600,000, were granted on July 1, 2009, at an exercise price of $0.95 per share. The Inducement Options vested and became exercisable in three equal annual installments commencing on July 1, 2010, provided that Mr. Hauser remains employed by the Company through each such date. The Inducement Restricted Stock were awarded in the following three installments: (i) $500,000 on July 1, 2009; (ii) $1,750,000 on July 1, 2010; and (iii) $1,750,000 on July 1, 2011, and were valued based on the average closing prices of the Company's common stock during the thirty calendar days immediately preceding the applicable award date. Accordingly, on July 1, 2009, 523,810 shares of restricted stock were awarded to Mr. Hauser. The Inducement Restricted Stock would have become fully vested on July 1, 2012, provided that Mr. Hauser remained employed by the Company through such date. No shares of restricted stock were issued on July 1, 2010. The Inducement Performance Units would have been earned and paid in shares of the Company's common stock, based on the Company's performance during the performance periods, with a target amount of 200% of Mr. Hauser's base salary and a maximum of 400% of Mr. Hauser's base salary. The number of shares subject to the Inducement Options and the option exercise price would have been adjusted, and additional shares of Inducement Restricted Stock would have been awarded, as necessary, to preserve the value of the Inducement Options and the Inducement Restricted Stock awarded on July 1, 2009 if, prior to December 31, 2010, the Company had completed a restructuring of its indebtedness.

The grant date fair value of the Inducement Options was determined using the Black-Scholes model. Key assumptions used for determining the fair value of the Inducement Options were as follows: risk-free rate—3.54%; expected term—10 years; expected volatility—5.70%.

All of Mr. Hauser's non-vested Inducement Options and Inducement Restricted Stock were cancelled upon his resignation, effective August 24, 2010.

(16) Transactions with Affiliates

The Company hired Gilbane Building Company to construct a new data center in Manchester, New Hampshire and to perform restoration services on a flooded building in Raymond, New Hampshire. Thomas F. Gilbane, Jr., a director of the Predecessor Company, is Chairman and Chief Executive Officer of Gilbane Building Company. Gilbane Building Company was hired by the Company for both projects prior to Mr. Gilbane's designation to the board of directors. The Company did not pay any fees to Gilbane Building Company in the years ended December 31, 2011 and 2010. The Company paid Gilbane Building Company fees of $0.8 million in the year ended December 31, 2009.

(17) Quarterly Financial Information (Unaudited)

The quarterly information presented below represents selected quarterly financial results for the sixty-six days ended March 31, 2011, the 24 days ended January 24, 2011, the quarters ended June 30, September 30 and December 31, 2011 and 2010 and the quarter ended March 31, 2010 (in thousands, except per share data).

	Predecessor Company	Successor Company			
	Twenty-Four Days Ended January 24	Sixty-Six Days Ended March 31	Second Quarter	Third Quarter	Fourth Quarter
2011:					
Revenue	$ 66,378	$188,402	$262,636	$ 257,912	$254,162
Reorganization income (expense)	$ 897,313	$ (2,736)	$ (2,510)	$ 3,735	$ 1,743
Impairment of goodwill and trade name	$ —	$ —	$ —	$(262,019)	$ —
Net (loss) income	$586,907	$ (24,423)	$ (27,097)	$ (279,441)	$ (83,984)
(Loss) income per share:					
Basic	$ 6.56	(0.95)	$ (1.05)	$ (10.81)	$ (3.25)
Diluted	$ 6.54	(0.95)	$ (1.05)	$ (10.81)	$ (3.25)

	Predecessor Company			
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
2010:				
Revenue	$270,801	$271,563	$260,630	$267,992
Net loss	$ (86,330)	$ (54,178)	$ (66,084)	$ (74,987)
Loss per share:				
Basic	$ (0.97)	$ (0.61)	$ (0.74)	$ (0.84)
Diluted	$ (0.97)	$ (0.61)	$ (0.74)	$ (0.84)

(18) Fair Value Measurements

The Fair Value Measurements and Disclosures Topic of the ASC defines fair value, establishes a framework for measuring fair value and establishes a hierarchy that categorizes and prioritizes the sources to be used to estimate fair value. The Fair Value Measurements and Disclosures Topic of the ASC also expands financial statement disclosures about fair value measurements.

In determining fair value, the Company uses a hierarchy for inputs used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the most observable inputs be used when available. The hierarchy is broken down into three levels based on the reliability of inputs as follows:

Level 1 – Valuations based on quoted prices in active markets for identical assets or liabilities that the Company has the ability to access.

Level 2 – Valuations based on quoted prices in markets that are not active or for which all significant inputs are observable, either directly or indirectly.

Level 3 – Valuations based on inputs that are unobservable and significant to the overall fair value measurement.

At December 31, 2010, the Company had $595.1 million of goodwill and $42.8 million of indefinite life intangible assets. During the 341 days ended December 31, 2011, the Company recorded a goodwill impairment of $243.2 million and an intangible asset impairment of $18.8 million. The fair value measurement related to the impairments were generated using the discounted cash flow method and were based on level 3 inputs.

The carrying value of the Swaps at December 31, 2010 represents the termination value of the Swaps as determined by the respective counterparties following the event of default described herein. See note 8 for more information.

At the Effective Date, with the exception of deferred taxes and assets and liabilities associated with pension and post-retirement healthcare plans, all assets and liabilities were remeasured at fair value under fresh start accounting. See note 2.

(19) Business Concentrations

Geographic

As of December 31, 2011, approximately 85% of the Company's access line equivalents were located in Maine, New Hampshire and Vermont. As a result of this geographic concentration, the 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 Company's services and resulting loss of access line equivalents which could have a material adverse effect on the Company's business, financial condition, results of operations, liquidity and the market price of the Company's Common Stock.

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

Labor

As of December 31, 2011, we employed a total of 3,541 employees, 2,254, or 64%, of whom were covered by fourteen collective bargaining agreements. As of December 31, 2011, 72 of our employees were covered by four collective bargaining agreements that expire during the next calendar year.

(20) Operational Restructuring Charges

During the 341 days ended December 31, 2011, the Company announced plans to reduce its workforce to ensure that the Company is staffed appropriately to serve its customers well, while prudently managing expenses. The reduction eliminated approximately 400 positions. In connection with this plan, the Company recognized $7.9 million in restructuring charges, consisting of severance and one-time incentive payments, which are included within cost of services and sales and selling, general and administrative expense in the consolidated statement of operations.

(21) Commitments and Contingencies

(a) Leases

The Company currently leases real estate and fleet vehicles under capital and operating leases expiring through the year ending 2020. The Company accounts for leases using the straight-line method, which amortizes contracted total payments evenly over the lease term

Future minimum lease payments under capital leases and non-cancelable operating leases as of December 31, 2011 are as follows (in thousands):

	Capital Leases	Operating Leases
Year ending December 31:		
2012	$ 1,679	$ 9,871
2013	1,499	8,471
2014	1,493	6,080
2015	105	3,455
2016	—	2,246
Thereafter	—	2,257
Total minimum lease payments	$ 4,776	$32,380
Less interest and executory cost	(834)	
Present value of minimum lease payments	3,942	
Less current installments	(1,252)	
Long-term obligations at December 31, 2011	$ 2,690	

Total rent expense was $14.5 million, $1.0 million, $15.6 million and $16.7 million for the 341 days ended December 31, 2011, the 24 days ended January 24, 2011 and the years ended December 31, 2010 and 2009, respectively.

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

(b) Legal Proceedings

From time to time, the Company is involved in litigation and regulatory proceedings arising out of its operations. The Company's management believes that it is not currently a party to any legal or regulatory proceedings, the adverse outcome of which, individually or in the aggregate, would have a material adverse effect on the Company's financial position or results of operations. Notwithstanding that we emerged from Chapter 11 protection on the Effective Date, five of the Chapter 11 Cases are still being resolved.

On the Petition Date FairPoint Communications and substantially all of its direct and indirect subsidiaries filed voluntary petitions for relief under the Chapter 11 Cases. On January 13, 2011, the Bankruptcy Court entered the Confirmation Order, which confirmed the Plan. On the Effective Date, the Company substantially consummated the reorganization through a series of transactions contemplated by the Plan, and the Plan became effective pursuant to its terms.

On June 30, 2011, the Bankruptcy Court entered a final decree closing certain of the Company's bankruptcy cases due to the closed cases being fully administered. Of the 80 original bankruptcy cases, only five remain open. These cases are FairPoint Communications, Inc. (Case No. 09-16335), Northern New England Telephone Operations LLC (Case No. 09-16365), Telephone Operating Company of Vermont LLC (Case No. 09-16410), MJD Services Corp. (Case No. 09-16366) and Enhanced Communications of Northern New England Inc. (Case No. 09-16349).

(c) Service Quality Penalties

The Company is subject to certain retail service quality requirements in the states of Maine, New Hampshire and Vermont for the Northern New England operations. Failure to meet these requirements in any of these states may result in penalties being assessed by the respective state regulatory body. The Merger Orders provide that any penalties assessed by the states be paid by the Company in the form of credits applied to retail customer bills.

During February 2010, the Company entered into the Regulatory Settlements with the representatives for each of Maine, New Hampshire and Vermont regarding modification of each state's Merger Order, which have since been approved by the regulatory authorities in these states. The Regulatory Settlements in New Hampshire and Vermont deferred final settlement of fiscal 2008 and 2009 SQI penalties until final 2010 SQI results were reported and approved by the respective regulatory authorities. In each state, a provision in the respective orders identified key performance metrics in the 2010 SQI plans that, if met, would reduce the 2008 and 2009 SQI penalties. The Company's respective 2010 SQI results have been accepted in New Hampshire and Vermont and resulted in reductions of the 2008 and 2009 SQI penalties, as applicable, of 60% in New Hampshire and 90% in Vermont. This reduced the Company's accrual by $13.8 million, of which $12.7 million and $1.1 million was recognized in 2010 and in 2011, respectively. In addition, the Regulatory Settlement for Maine deferred the Company's fiscal 2008 and 2009 SQI penalties until March 2010, at which time the Company began applying credits to customers' bills.

As of December 31, 2011 and 2010, the Company recognized an estimated liability for service quality penalties based on the Company's actual results relative to the performance metrics measured by the respective SQI plans in Maine, New Hampshire and Vermont. The Company's accrual at December 31, 2011 reflects an improvement in the Company's performance, certain legislative and regulatory changes and the issuance of credits to customers in Maine based on prior year penalties. No such credits were issued in New Hampshire or Vermont in 2011 as final disposition of SQI penalties were yet to be determined. An increase in the estimated liability was recorded as a reduction to revenue for the 24 days ended January 24, 2011.

On February 13, 2012, the VT Public Service Board approved the Company's request to use $6.6 million of the Amended Retail Service Quality Plan and PAP Mode of Entry penalties to deploy broadband into unserved areas. Approximately $5.3 million of this amount is related to pre-bankruptcy and therefore, is included in the Cash Claims Reserve.

Table of Contents

Beginning in March 2010, the Company began to issue SQI rebates related to the Maine 2008 and 2009 SQI penalties to customers over a twelve month period. The liabilities recorded as a reduction (increase) to revenue and the SQI penalties paid out in the form of customer rebates are as follows (in thousands):

	Successor Company	Predecessor Company		
	Three Hundred Forty-One Days Ended	Twenty-Four Days Ended	Year Ended December 31,	
	December 31, 2011	January 24, 2011	2010	2009
Increase (decrease) in liability recorded as a reduction (increase) to revenue	$ (4,145)	$ 401	$ (952)	$25,362
SQI penalties paid out in the form of customer rebates	$ (8,921)	$ (631)	$(5,750)	$ —

The Company has recorded a total liability of $7.5 million and $20.8 million on the consolidated balance sheets at December 31, 2011 and 2010, respectively, of which $3.9 million and $12.5 million, respectively, are included in other accrued liabilities. The remainder of the December 31, 2011 and 2010 liability is included in the Claims Reserve and liabilities subject to compromise, respectively.

(d) Performance Assurance Plan Credits

As part of the Merger Orders, the Company adopted a PAP for certain services provided on a wholesale basis to CLECs in the states of Maine, New Hampshire and Vermont. Failure to meet specified performance standards in any of these states may result in performance credits being assessed in accordance with the provisions of the PAP in each state. As of December 31, 2011 and 2010, the Company has recorded a reserve for the estimated amount of PAP credits based on metrics defined by the PAP. Credits assessed in Maine and New Hampshire are recorded as a reduction to accounts receivable since they are paid by the Company in the form of credits applied to CLEC bills. PAP credits for Vermont are recorded as liabilities since a majority of these credits are paid to the Vermont Universal Service Fund, while the remaining credits assessed in Vermont are paid by the Company in the form of credits applied to CLEC bills. Based on the Company's current estimate of its PAP credits in these states, reserves recorded as a reduction (increase) to revenue and the PAP credits paid are as follows (in thousands):

	Successor Company	Predecessor Company		
	Three Hundred Forty-One Days Ended	Twenty-Four Days Ended	Year Ended December 31,	
	December 31, 2011	January 24, 2011	2010	2009
Increase (decrease) in estimated reserve recorded as a reduction (increase) to revenue	$ 1,086	$ 629	$ 7,160	$21,456
PAP credits paid out	$ (4,778)	$ (531)	$(12,421)	$ (7,796)

The Company has recorded a total reserve of $4.9 million and $8.4 million on the consolidated balance sheets at December 31, 2011 and 2010, respectively. At December 31, 2011 and 2010, $4.1 million of the total reserve is recorded to the Claims Reserve and liabilities subject to compromise.

The NHPUC has ordered an audit of the Company's existing PAP in the state of New Hampshire, which commenced in October 2011. The existing PAPs in Maine and Vermont may also be subject to audit, as determined by the Maine Public Utilities Commission ("MPUC") and the Vermont Public Service Board, respectively.

(e) Capital Expenditure Obligations

Under regulatory settlements in each of Maine, New Hampshire and Vermont, the Company is required to make certain capital expenditures in each of these states. Beginning from the date of the Merger, the Company is required to spend $141.0 million through March 31, 2011 in Maine, $350.4 million through March 31, 2015 in New Hampshire and $120.0 million through March 31, 2011 in Vermont. The Company has exceeded the expenditure requirements with a deadline of March 31, 2011 in Maine and Vermont and expects to meet the expenditure requirements with a deadline of March 31, 2015 in New Hampshire.

(22) Subsequent Events

On February 13, 2012, the VT Public Service Board approved the Company's request to use $6.6 million of the Amended Retail Service Quality Plan and PAP Mode of Entry penalties to deploy broadband into unserved areas. Approximately $5.3 million of this amount is related to pre-bankruptcy periods and, therefore, is included in the Cash Claims Reserve at December 31, 2011.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

ITEM 9A. CONTROLS AND PROCEDURES

(a) Evaluation of Disclosure Controls and Procedures

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

Based upon this evaluation, our principal executive officer and principal financial officer have concluded that our disclosure controls and procedures were not effective as of December 31, 2011 because of the material weakness described below.

(b) Material Weakness in Internal Control over Financial Reporting

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

A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement in the reporting company's annual or interim financial statements will not be prevented or detected on a timely basis.

Our management evaluated the effectiveness of our internal control over financial reporting as of December 31, 2011 based upon criteria in *Internal Control – Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on such evaluation, management determined that our internal control over financial reporting was not effective as of December 31, 2011 because the following material weakness in internal control over financial reporting, which was previously identified in our 2010 Annual Report on Form 10-K and our quarterly reports on Form 10-Q for the quarters ending March 31, 2011, June 30, 2011 and September 30, 2011, continued to exist during 2011:

- Procedures for the review of our income tax provision and supporting schedules were not adequate to identify and correct errors in a timely manner.

(c) Changes in Internal Control Over Financial Reporting

During the year ended December 31, 2011, our management completed the following improvements to address the material weakness relating to our review of our internal tax provision and supporting schedules which were not adequate to identify and correct errors in a timely manner:

- Streamlined the process for preparation of quarterly income tax provisions and
- Contracted with a major accounting firm to assist with the preparation and review of the quarterly and year-end tax provision and related schedules.

We are committed to continuing to improve our internal control processes and will continue to review our financial reporting controls and procedures. As we continue to evaluate and work to improve our internal control over financial reporting, we may identify additional measures to address these material weaknesses or other deficiencies. Our management, with the oversight of the audit committee of our board of directors, will continue to assess and take steps to enhance the overall design and capability of our control environment in the future.

In addition to the actions described above and the remediation actions described below, we continue to refine our processes to improve control and process effectiveness and efficiency. Such process refinements have been applied to virtually all processes for the Northern New England operations, including information technology, order provisioning, customer billing, payment processing, credit and collections, inventory management, accounts payable, payroll, human resource administration, tax and general ledger accounting.

(d) Remediation of Material Weaknesses in Internal Control Over Financial Reporting

During the year ended December 31, 2011, our management completed corrective actions to remediate certain of the material weaknesses identified in our 2010 Annual Report on Form 10-K and our quarterly reports on Form 10-Q for the quarters ending March 31, 2011, June 30, 2011 and September 30, 2011. Specifically, the following actions were taken with respect to each of the following identified material weaknesses:

Our Information Technology Controls Were Not Adequate. Specifically, our change management processes were not consistently followed to ensure all changes were appropriately authorized. In addition, access to our information systems was not appropriately restricted.

To resolve this issue, the following improvements were implemented:

- Implemented formal change management processes governing approval, testing and implementation of system and application changes;
- Restricted access to the privileged system account for our retail billing system;

- Restricted access to shared administrator accounts to individuals with a valid business need for accessing those accounts; and
- Revised access to human resource, general ledger, accounts receivable, accounts payable, enterprise asset management, fixed assets, inventory, purchase order and payroll functions within the Oracle system to eliminate certain segregation of duties issues.

Our management oversight and review procedures designed to monitor the accuracy of period-end accounting activities were ineffective. Specifically, our account reconciliation processes were not adequate to properly identify and resolve discrepancies between our billing system and our general ledger in a timely manner. In addition, project accounting controls were not adequate to ensure charges to capital projects were appropriate or that projects were closed in a timely manner.

To resolve this issue, the following improvements were implemented:

- Implemented an account reconciliation software application to facilitate execution and management monitoring of account reconciliations;
- Enhanced the reconciliation procedures for various accounts, including the wholesale and retail accounts receivable reconciliations;
- Implemented upfront system edits and automated feed of project data between the engineering project management system used for outside plant projects and the Oracle project accounting system;
- Implemented process for additional review of project charges prior to project close and established appropriate reserves for charges on open projects;

We are committed to continuing to improve our internal control processes and will continue to review our financial reporting controls and procedures. As we continue to evaluate and work to improve our internal control over financial reporting, we may identify additional measures to address these material weaknesses or determine to modify certain of the remediation procedures described above. Our management, with the oversight of the audit committee of our board of directors, will continue to assess and take steps to enhance the overall design and capability of our control environment in the future.

With the exception of the foregoing remediation actions and the changes described in the previous section, there have been no changes in our internal control over financial reporting during the year ended December 31, 2011 that have materially affected or are reasonably likely to materially affect our internal control over financial reporting.

See “Item 8. Financial Statements and Supplementary Data” for the Report of Management on Internal Control over Financial Reporting, which is incorporated herein by reference.

See “Item 8. Financial Statements and Supplementary Data” for the Report of Independent Registered Public Accounting Firm on Internal Control over Financial Reporting, which is incorporated herein by reference.

ITEM 9B. OTHER INFORMATION

Not applicable.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

The information required by Items 401, 405, 406 and 407(c)(3), (d)(4) and (d)(5) of Regulation S-K is incorporated herein by reference to our definitive proxy statement to be filed with the SEC pursuant to Regulation 14A under the Exchange Act.

ITEM 11. EXECUTIVE COMPENSATION

The information required by Item 402 and paragraph (e)(4) and (e)(5) of Item 407 of Regulation S-K is incorporated herein by reference to our definitive proxy statement to be filed with the SEC pursuant to Regulation 14A under the Exchange Act.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

The information required by Item 403 of Regulation S-K is incorporated herein by reference to our definitive proxy statement to be filed with the SEC pursuant to Regulation 14A under the Exchange Act. The information required by Item 201(d) of Regulation S-K is incorporated herein by reference to "Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities—Securities Authorized for Issuance under Equity Compensation Plans" of this Annual Report.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

The information required by Items 404 and 407(a) of Regulation S-K is incorporated herein by reference to our definitive proxy statement to be filed with the SEC pursuant to Regulation 14A under the Exchange Act.

ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

The information required by Item 9(e) of Schedule 14A is incorporated herein by reference to our definitive proxy statement to be filed with the SEC pursuant to Regulation 14A under the Exchange Act.

PART IV

ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES

(a) Financial Statements

The financial statements filed as part of this Annual Report are listed in the index to the financial statements under "Item 8. Financial Statements and Supplementary Data" in this Annual Report, which index to the financial statements is incorporated herein by reference.

(b) Exhibits

The exhibits filed as part of this Annual Report are listed in the index to exhibits found hereafter, which index to exhibits is incorporated herein by reference.

Table of Contents

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this Annual Report to be signed on its behalf by the undersigned, thereunto duly authorized.

FAIRPOINT COMMUNICATIONS, INC.

Date: March 9, 2012

By: /s/ Paul H. Sunu
Name: Paul H. Sunu
Title: Chief Executive Officer and Director

Pursuant to the requirements of the Securities Exchange Act of 1934, this Annual Report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

Signatures	Title	Date
/s/ Paul H. Sunu Paul H. Sunu	Chief Executive Officer and Director (Principal Executive Officer)	March 9, 2012
/s/ Ajay Sabherwal Ajay Sabherwal	Executive Vice President and Chief Financial Officer (Principal Financial Officer)	March 9, 2012
/s/ John T. Hogshire John T. Hogshire	Vice President and Controller (Principal Accounting Officer)	March 9, 2012
/s/ Todd W. Arden Todd W. Arden	Director	March 9, 2012
/s/ Dennis J. Austin Dennis J. Austin	Director	March 9, 2012
/s/ Edward D. Horowitz Edward D. Horowitz	Chairman of the Board of Directors	March 9, 2012
/s/ Michael J. Mahoney Michael J. Mahoney	Director	March 9, 2012
/s/ Michael K. Robinson Michael K. Robinson	Director	March 9, 2012
/s/ David L. Treadwell David L. Treadwell	Director	March 9, 2012
/s/ Wayne Wilson Wayne Wilson	Director	March 9, 2012

Exhibit Index

Exhibit No.	Description
2.1	Third Amended Joint Plan of Reorganization Under Chapter 11 of the Bankruptcy Code.(1)
3.1	Ninth Amended and Restated Certificate of Incorporation of FairPoint.(2)
3.2	Second Amended and Restated By Laws of FairPoint.(2)
4.1	Warrant Agreement, dated as of January 24, 2011, by and between FairPoint and The Bank of New York Mellon.(3)
4.2	Specimen Stock Certificate.(2)
4.3	Specimen Warrant Certificate.(3)
10.1	Credit Agreement, dated as of January 24, 2011, by and among FairPoint, FairPoint Logistics, Bank of America, N.A., as administrative agent, the other lenders party thereto and Banc of America Securities LLC, as sole lead arranger and sole book manager.(3)
10.2	Pledge Agreement, dated as of January 24, 2011, made by the pledgors party thereto in favor of Bank of America, N.A. as administrative agent, for the benefit of certain secured parties.(3)
10.3	Security Agreement, dated as of January 24, 2011, by and among FairPoint, FairPoint Logistics, the subsidiaries of FairPoint party thereto and Bank of America, N.A., as administrative agent.(3)
10.4	Continuing Guaranty Agreement, dated as of January 24, 2011, made by and among the guarantors party thereto in favor of Bank of America, N.A., as administrative agent, for the benefit of certain secured parties.(3)
10.5	Registration Rights Agreement, dated as of January 24, 2011, by and between FairPoint Communications, Inc. and Angelo, Gordon & Co., L.P.(3)
10.6	FairPoint Litigation Trust Agreement, dated as of January 24, 2011.(3)
10.7	Form of Director Indemnity Agreement.(4)
10.8	Amended and Restated Tax Sharing Agreement, dated as of November 9, 2000, by and among FairPoint and its Subsidiaries.(5)
10.9	Employment Agreement, dated as of August 16, 2010, by and between FairPoint and Paul H. Sunu.†(6)
10.10	Consulting Agreement, dated as of August 16, 2010, by and between FairPoint and David L. Hauser.(6)
10.11	Change in Control and Severance Agreement, dated as of March 14, 2007, by and between FairPoint and Peter G. Nixon.†(7)
10.12	Change in Control and Severance Agreement, dated as of March 14, 2007, by and between FairPoint and Shirley J. Linn.†(7)
10.13	Change in Control and Severance Agreement, dated as of September 3, 2008, by and between FairPoint and Ajay Sabherwal.†(6)
10.14	FairPoint Communications, Inc. 2010 Long Term Incentive Plan.†(1)
10.15	FairPoint Communications, Inc. 2010 Success Bonus Plan.†(1)
10.16	Form of Restricted Share Award Agreement—FairPoint Communications, Inc. 2010 Long Term Incentive Plan.†(1)
10.17	Stipulation filed with the Maine Public Utilities Commission, dated December 12, 2007.(8)
10.18	Amended Stipulation filed with the Maine Public Utilities Commission dated December 21, 2007(9)
10.19	Stipulation filed with the Vermont Public Service Board, dated January 8, 2008.(10)
10.20	Stipulation filed with the New Hampshire Public Utilities Commission, dated January 23, 2008.(11)
10.21	Letter Agreement, dated as of March 30, 2008, by and between the Staff of the New Hampshire Public Utilities Commission and Verizon Communications Inc.(9)
10.22	Letter, dated as of May 12, 2009, from the Staff of the New Hampshire Public Utilities Commission to FairPoint.(12)
10.23	Post Filing Regulatory Settlement—New Hampshire, dated as of February 5, 2010, by and between FairPoint and New Hampshire Public Utilities Commission Staff Advocates.(1)

Exhibit No.	Description
10.24	Post Filing Regulatory Settlement—Maine, dated as of February 9, 2010, by and among FairPoint, Maine Public Utilities Commission and Maine Office of the Public Advocate.(1)
10.25	Post Filing Regulatory Settlement—Vermont, dated as of February 5, 2010, by and between FairPoint and Vermont Department of Public Service.(1)
10.26	Employment Agreement, dated as of July 1, 2011, by and between FairPoint and Kathleen McLean.†(17)
10.27	Employment Agreement, dated as of July 1, 2011, by and between FairPoint and Kenneth W. Amburn.†(17)
11	Statement Regarding Computation of Per Share Earnings (included in the financial statements contained in this Annual Report).
14.1	FairPoint Code of Business Conduct and Ethics.(18)
14.2	FairPoint Code of Ethics for Financial Professionals.(13)
21	Subsidiaries of FairPoint.*
23.1	Consent of Ernst & Young LLP.*
31.1	Certification as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.*
31.2	Certification as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.*
32.1	Certification required by 18 United States Code Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.*‡
32.2	Certification required by 18 United States Code Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.*‡
99.1	Order, dated January 13, 2011, Confirming Debtors' Third Amended Joint Plan of Reorganization Under Chapter 11 of the Bankruptcy Code, dated as of December 29, 2010.(1)
99.2	Order of the Maine Public Utilities Commission, dated February 1, 2008.(14)
99.3	Order of the Vermont Public Service Board, dated February 15, 2008.(15)
99.4	Order of the New Hampshire Public Utilities Commission, dated February 25, 2008.(16)
99.5	FairPoint Insider Trading Policy.(18)
101.INS	XBRL Instance Document.**
101.SCH	XBRL Taxonomy Extension Schema Document.**
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document.**
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document.**
101.LAB	XBRL Taxonomy Extension Label Linkbase Document.**
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document.**

* Filed herewith.

† Indicates a management contract or compensatory plan or arrangement.

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

** Pursuant to Rule 406T of Regulation S-T, this interactive data file is deemed not filed or part of a registration statement or prospectus for purposes of sections 11 and 12 of the Securities Act, is deemed not filed for purposes of section 18 of the Exchange Act, and otherwise is not subject to liability under these sections.

(1) Incorporated by reference to the Current Report on Form 8-K of FairPoint filed on January 14, 2011.

(2) Incorporated by reference to the Registration Statement on Form 8-A of FairPoint filed on January 24, 2011.

(3) Incorporated by reference to the Current Report on Form 8-K of FairPoint filed on January 25, 2011, Film Number 11544980.

(4) Incorporated by reference to the Current Report on Form 8-K of FairPoint filed on January 25, 2011, Film Number 11544991.

(5) Incorporated by reference to the Quarterly Report on Form 10-Q of FairPoint for the period ended September 30, 2000.
(6) Incorporated by reference to the Quarterly Report on Form 10-Q of FairPoint for the period ended September 30, 2010.
(7) Incorporated by reference to the Current Report on Form 8-K of FairPoint filed on March 19, 2007.
(8) Incorporated by reference to the Current Report on Form 8-K of FairPoint filed on December 13, 2007.
(9) Incorporated by reference to the Current Report on Form 8-K of FairPoint filed on April 3, 2008.
(10) Incorporated by reference to the Current Report on Form 8-K of FairPoint filed on January 8, 2008.
(11) Incorporated by reference to the Current Report on Form 8-K of FairPoint filed on January 24, 2008.
(12) Incorporated by reference to the Quarterly Report on Form 10-Q of FairPoint for the period ended June 30, 2009.
(13) Incorporated by reference to the Annual Report on Form 10-K of FairPoint for the year ended December 31, 2004.
(14) Incorporated by reference to the Current Report on Form 8-K of FairPoint filed on February 6, 2008.
(15) Incorporated by reference to the Current Report on Form 8-K of FairPoint filed on February 21, 2008.
(16) Incorporated by reference to the Current Report on Form 8-K of FairPoint filed on February 25, 2008.
(17) Incorporated by reference to the Quarterly Report on Form 10-Q of FairPoint for the period ended June 30, 2011.
(18) Incorporated by reference to the Annual Report on Form 10-K of FairPoint for the year ended December 31, 2010.

Exhibit 21

FAIRPOINT COMMUNICATIONS, INC.
(formerly known as MJD Communications, Inc.)
SUBSIDIARIES

Name	Jurisdiction of Incorporation
ST Enterprises, Ltd.	**Kansas**
FairPoint Vermont, Inc.	Delaware
ST Long Distance, Inc.	Delaware
Sunflower Telephone Company, Inc.	Kansas
Northland Telephone Company of Maine, Inc.	Maine
MJD Ventures, Inc.	**Delaware**
GTC Communications, Inc. (f/k/a TPG Communications, Inc.)	Delaware
St. Joe Communications, Inc.	Florida
GTC, Inc.	Florida
Fremont Telcom Co.	Idaho
Fretel Communications, LLC	Idaho
C-R Communications, Inc.	Illinois
C-R Telephone Company	Illinois
C-R Long Distance, Inc.	Illinois
Community Service Telephone Co.	Maine
Sidney Telephone Company	Maine
Utilities, Inc.	Maine
China Telephone Company	Maine
Maine Telephone Company	Maine
Standish Telephone Company	Maine
UI Long Distance, Inc.	Maine
Berkshire Telephone Corporation	New York
Berkshire Cable Corp.	New York
Berkshire Cellular, Inc.	New York
Berkshire New York Access, Inc.	New York
Chautauqua and Erie Telephone Corporation	New York
Chautauqua & Erie Communications, Inc. (d/b/a C& E Teleadvantage)	New York
C & E Communications, Ltd.	New York
Taconic Telephone Corp.	New York
Taconic Technology Corp.	New York
Taconic TelCom Corp.	New York
The Columbus Grove Telephone Company	Ohio
Quality One Technologies, Inc.	Ohio
The Germantown Independent Telephone Company	Ohio
Germantown Long Distance Company	Ohio
The Orwell Telephone Company	Ohio
Orwell Communications, Inc.	Ohio
Chouteau Telephone Company	Oklahoma

Bentleyville Communications Corporation	Pennsylvania
BE Mobile Communications, Incorporated	Pennsylvania
Marianna and Scenery Hill Telephone Company	Pennsylvania
Marianna Tel, Inc.	Pennsylvania
Peoples Mutual Telephone Company	Virginia
Peoples Mutual Long Distance Company	Virginia
Comerco, Inc.	Washington
YCOM Networks, Inc.	Washington
Ellensburg Telephone Company	Washington
Elltel Long Distance Corp.	Delaware
MJD Services Corp.	**Delaware**
Big Sandy Telecom, Inc.	Delaware
Bluestem Telephone Company	Delaware
Columbine Telecom Company (f/k/a Columbine Acquisition Corp.)	Delaware
Odin Telephone Exchange, Inc.	Illinois
Ravenswood Communications, Inc.	Illinois
El Paso Long Distance Company	Illinois
The El Paso Telephone Company	Illinois
FairPoint Communications Missouri, Inc.	Missouri
Unite Communications Systems, Inc.	Missouri
ExOp of Missouri, Inc.	Missouri
FairPoint Carrier Services, Inc.	**Delaware**
(f/k/a FairPoint Communications Solutions Corp., f/k/a FairPoint Communications Corp.)	
FairPoint Broadband, Inc.	**Delaware**
Northern New England Telephone Operations LLC	**Delaware**
Telephone Operating Company of Vermont LLC	Delaware
Enhanced Communications of Northern New England Inc.	**Delaware**
FairPoint Logistics, Inc. (f/k/a MJD Capital Corp.)	**South Dakota**
FairPoint Business Services LLC	**Delaware**

Exhibit 23.1

Consent of Independent Registered Public Accounting Firm

We consent to the incorporation by reference in the Registration Statement (Form S-8 No. 333-171835) pertaining to the 2010 Long Term Incentive Plan of our report dated March 9, 2012, with respect to the consolidated financial statements and schedules of FairPoint Communications, Inc. (the Company), and the effectiveness of internal control over financial reporting of FairPoint Communications, Inc. in this Annual Report (Form 10-K) for the year ended December 31, 2011.

Charlotte, North Carolina
March 9, 2012

Exhibit 31.1

CERTIFICATION

I, Paul H. Sunu, certify that:

1. I have reviewed this Annual Report on Form 10-K of FairPoint Communications, Inc. (the "Company");

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report fairly present in all material respects the financial condition, results of operations and cash flows of the Company as of, and for, the periods presented in this report;

4. The Company's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in the Securities Exchange Act of 1934, as amended (the "Exchange Act") Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the Company and have:

(i) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(ii) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(iii) Evaluated the effectiveness of the Company's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(iv) Disclosed in this report any change in the Company's internal control over financial reporting that occurred during the Company's most recent fiscal quarter (the Company's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting; and

5. The Company's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Company's auditors and the audit committee of the Company's board of directors (or persons performing the equivalent functions):

(i) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Company's ability to record, process, summarize and report financial information; and

(ii) Any fraud, whether or not material, that involves management or other employees who have a significant role in the Company's internal control over financial reporting.

Date: March 9, 2012

/s/ Paul H. Sunu

Paul H. Sunu
Chief Executive Officer

Exhibit 31.2

CERTIFICATION

I, Ajay Sabherwal, certify that:

1. I have reviewed this Annual Report on Form 10-K of FairPoint Communications, Inc. (the "Company");

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report fairly present in all material respects the financial condition, results of operations and cash flows of the Company as of, and for, the periods presented in this report;

4. The Company's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in the Securities Exchange Act of 1934, as amended (the "Exchange Act") Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the Company and have:

(i) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(ii) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(iii) Evaluated the effectiveness of the Company's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(iv) Disclosed in this report any change in the Company's internal control over financial reporting that occurred during the Company's most recent fiscal quarter (the Company's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting; and

5. The Company's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Company's auditors and the audit committee of the Company's board of directors (or persons performing the equivalent functions):

(i) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Company's ability to record, process, summarize and report financial information; and

(ii) Any fraud, whether or not material, that involves management or other employees who have a significant role in the Company's internal control over financial reporting.

Date: March 9, 2012

/s/ Ajay Sabherwal

Ajay Sabherwal
Chief Financial Officer

Exhibit 32.1

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Annual Report on Form 10-K of FairPoint Communications, Inc. (the "Company") for the year ended December 31, 2011 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Paul H. Sunu, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

1. The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Paul H. Sunu

Paul H. Sunu
Chief Executive Officer

March 9, 2012

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

Exhibit 32.2

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Annual Report on Form 10-K of FairPoint Communications, Inc. (the "Company") for the year ended December 31, 2011 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Ajay Sabherwal, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

1. The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Ajay Sabherwal

Ajay Sabherwal
Chief Financial Officer

March 9, 2012

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

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

Form 10-K

(Mark One)

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

For the fiscal year ended December 31, 2012.

or

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

For the transition period from to

Commission file number 001-32408

FairPoint Communications, Inc.
(Exact name of registrant as specified in its charter)

Delaware **(State or other jurisdiction of incorporation or organization)**	**13-3725229** **(I.R.S. Employer Identification No.)**
521 East Morehead Street, Suite 500 **Charlotte, North Carolina** **(Address of principal executive offices)**	**28202** **(Zip Code)**

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

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	**Name of exchange on which registered**
Common Stock, par value $0.01 per share	The Nasdaq Stock Market LLC (Nasdaq Capital Market)

Securities registered pursuant to Section 12(g) of the Act:
None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☐ No ☒

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Act. Yes ☐ No ☒

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

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☒

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

Large accelerated filer	☐	Accelerated filer	☒

Non-accelerated filer	☐ (Do not check if a smaller reporting company)	Smaller reporting company	☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes ☐ No ☒

The aggregate market value of the common stock of the registrant held by non-affiliates of the registrant as of June 29, 2012 (based on the closing price of $6.15 per share) was $158,658,493.

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

As of February 28, 2013, there were 26,475,358 shares of the registrant's common stock, par value $0.01 per share, outstanding.

Documents incorporated by reference: Part III of this annual report on Form 10-K incorporates information by reference from the registrant's definitive proxy statement to be filed with the Securities and Exchange Commission pursuant to Regulation 14A under the Securities Exchange Act of 1934, as amended, within 120 days after the close of the registrant's fiscal year.

FAIRPOINT COMMUNICATIONS, INC.
ANNUAL REPORT ON FORM 10-K FOR THE YEAR ENDED DECEMBER 31, 2012

TABLE OF CONTENTS

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

Some statements in this Annual Report on Form 10-K for our fiscal year ended December 31, 2012 (this "Annual Report") are known as "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended (the "Securities Act"), and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). These forward-looking statements include, but are not limited to, statements about our plans, objectives, expectations and intentions and other statements contained in this Annual Report that are not historical facts. When used in this Annual Report, the words "expects," "anticipates," "intends," "plans," "believes," "seeks," "estimates" and similar expressions are generally intended to identify forward-looking statements. Because these forward-looking statements involve known and unknown risks and uncertainties, there are important factors that could cause actual results, events or developments to differ materially from those expressed or implied by these forward-looking statements, including our plans, objectives, expectations and intentions and other factors discussed under "Item 1A. Risk Factors" and other parts of this Annual Report and the factors set forth below:

- future performance generally and our share price as a result thereof;
- restrictions imposed by the agreements governing our indebtedness;
- our ability to satisfy certain financial covenants included in the agreements governing our indebtedness;
- financing sources and availability, and future interest expense;
- our ability to repay or refinance our indebtedness;
- our ability to fund substantial capital expenditures;
- anticipated business development activities and future capital expenditures;
- the effects of regulation, including changes in federal and state regulatory policies, procedures and mechanisms including but not limited to the availability and levels of regulatory support payments, and the remaining restrictions and obligations imposed by federal and state regulators as a condition to the approval of the Merger (as defined hereinafter) and the Plan (as defined hereinafter);
- adverse changes in economic and industry conditions, and any resulting financial or operational impact, in the markets we serve;
- labor matters, including workforce levels, our workforce reduction initiatives, labor negotiations and any resulting work stoppages, and any resulting financial or operational impact;
- material technological developments and changes in the communications industry, including declines in access lines and disruption of our third party suppliers' provisioning of critical products or services;
- change in preference and use by customers of alternative technologies;
- the effects of competition on our business and market share;
- intellectual property infringement claims by third parties;
- failure of, or attack on, our information technology ("IT") infrastructure;
- risks related to our reported financial information and operating results;
- availability of net operating loss ("NOL") carryforwards to offset anticipated tax liabilities;
- the impact of changes in assumptions on our ability to meet obligations to our company-sponsored qualified pension plans and post-retirement healthcare plans;
- the impact of lump sum payments related to accrued vested benefits under our company-sponsored qualified pension plans on future pension contributions;
- the effects of severe weather events, such as hurricanes, tornadoes and floods, terrorist attacks, cyber-attacks or other natural or man-made disasters; and
- changes in accounting assumptions that regulatory agencies, including the Securities and Exchange Commission (the "SEC"), may require or that result from changes in the accounting rules or their application, which could result in an impact on earnings.

You should not place undue reliance on such forward-looking statements, which are based on the information currently available to us and speak only as of the date on which this Annual Report was filed with the SEC. We undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. However, your attention is directed to any further disclosures made on related subjects in our subsequent reports filed with the SEC on Forms 10-K, 10-Q and 8-K.

PART I

ITEM 1. BUSINESS

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

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

Our Business

We are a leading provider of advanced communications services to business, wholesale and residential customers within our service territories. We offer our customers a suite of advanced data services such as Ethernet, high capacity data transport and other IP-based services over our Next Generation Network (as defined herein) in addition to Internet access, high-speed data ("HSD"), and local and long distance voice services. We are the incumbent communications provider in the markets we serve, primarily rural communities and small urban markets, and our service territory spans 17 states (after the 2013 sale of our operations in Idaho, which closed on January 31, 2013). Many of our local service companies have served their respective communities for more than 80 years. We operate with approximately 1.3 million access line equivalents, including approximately 326 thousand broadband subscribers, in service as of December 31, 2012.

We own and operate a ubiquitous, next-generation fiber network with more than 15,000 route miles (the "Next Generation Network") in the northern New England states of Maine, New Hampshire and Vermont, giving us capacity to support more HSD services and extend our fiber reach into more communities across the region. The IP/Multiple Protocol Label Switched ("IP/MPLS") network architecture of our Next Generation Network allows us to provide Ethernet, transport and other IP-based services with the highest level of reliability at a lower cost of service. This fiber network also supplies critical infrastructure for wireless providers serving the region as their bandwidth needs increase, driven by mobile data from smartphones, tablets and other wireless devices. Today, we provide cellular transport, also known as backhaul, through over 900 mobile Ethernet backhaul connections. We have fiber connectivity to more than 900 towers in our service footprint.

We were incorporated in Delaware in 1991 and grew through acquisitions to operate 30 local exchange carriers ("LECs") in 18 states with approximately 306 thousand access line equivalents as of December 31, 2007. Then, in March 2008, we completed the acquisition of the Northern New England operations from Verizon. This acquisition significantly expanded our geographic platform in Maine, New Hampshire and Vermont increasing our access line density and adding approximately 1.6 million access line equivalents from residential, business and wholesale customers.

Evolution of our Business

Access lines have historically been an important element of our business. Communications companies, including FairPoint, continue to experience a decline in access lines due to increased competition from competitive local exchange carriers ("CLECs"), wireless carriers and cable television operators, increased availability of alternative communications services, including wireless and voice over IP ("VoIP"), and challenging economic conditions. Our objective is to transform our revenue. Our plan is to add advanced data products and services such as Ethernet, high capacity data transport and other IP-based services over our Next Generation Network in addition to HSD services, to minimize our dependence on voice access lines. We will continue our efforts to retain customers to mitigate the loss of voice access lines through bundled packages including video and other value added services.

Over the past few years, we have made significant capital investments in our Next Generation Network to expand our business service offerings to meet the growing data needs of our customers and to increase broadband speeds and capacity in our consumer markets. We have also focused our sales and marketing efforts on these advanced data solutions. Specifically, within the last eighteen months, we built and launched high capacity Ethernet services to allow us to meet the capacity needs of our business customers as well as supply high capacity infrastructure to our wholesale customers. These advanced data services are our flagship product and are laying the foundation not only for new business but also for additional IP-based voice services in the future.

Additionally, we believe the bandwidth needs of cellular backhaul will continue to grow with the continued adoption of bandwidth-intensive technology. Our extensive fiber network, over 15,000 route miles, including over 900 cell towers currently served with fiber, puts us in an excellent position to grow our revenue base as demand for cellular backhaul services increases. We expect to see demand increase on existing fiber-connected towers where we would provision or expand mobile Ethernet backhaul connections or construct new fiber routes to cell towers.

Coupled with recent regulatory reform in the states of Maine, New Hampshire and Vermont that will serve to promote fair competition among communication services providers in the region, we believe that there is a significant organic growth opportunity within the business and wholesale markets given our extensive fiber network and IP-based product suite combined with our relative low market share in these areas.

Generation of Revenue

We offer a broad portfolio of services to meet the communications and technology needs of our customers, including bundling of services designed to simplify our customers' purchasing and management processes. Our basic offerings are outlined below, based on the types of services we provide.

See "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations" and "Item 8. Financial Statements and Supplementary Data" included elsewhere in this Annual Report for more information regarding our revenue sources and financial results, respectively.

Data and Internet Services

We believe data and Internet services are the cornerstone of our growth strategy for our business customers who require more advanced data solutions and our wholesale customers who experience capacity demands from their end users for higher speed services. We offer an extensive array of high capacity data services including: private line special access, fast packet, optical, Ethernet and IP services. We work with large businesses and carriers to deliver network capacity to meet their specific needs, including migrating networks from time division multiplexing to Ethernet-based high capacity circuits.

We offer broadband Internet access via Ethernet technology, fiber-to-the-home technology, digital subscriber line ("DSL") technology, retail Ethernet, dedicated T-1 connections, Internet dial-up, high speed cable modem and wireless broadband. Customers can utilize this access in combination with customer-owned equipment and software to establish a presence on the Internet. We offer enhanced Internet services, which include obtaining IP addresses, basic website design and hosting, domain name services, content feeds and web-based e-mail services.

Voice Services

Local Calling Services. Local calling service enables the local customer to originate and receive an unlimited number of calls within a defined "exchange" area. Local calling services include basic local lines and local private lines. We provide local calling services to residential and business customers, generally for a fixed monthly charge and service charges for special calling features. In a LEC's territory, the amount that we can charge a customer for local service is generally determined by proceedings involving the appropriate state regulatory authorities.

Long Distance Services. We offer dedicated long distance services within our service areas on our network and through resale agreements with national interexchange carriers. In addition, through our wholly-owned subsidiary, FairPoint Carrier Services, Inc., we offer wholesale long distance services to communications providers that are not affiliated with us.

High-Cost Loop Funding. We receive Connect America Fund ("CAF") Phase I frozen support (formerly Universal Service Fund ("USF") high-cost support) subsidies to supplement the amount of local service revenue received by us to ensure that basic local service rates for customers in high-cost areas are consistent with rates charged in lower cost areas. As described below in "Item 1. Business—Regulatory Environment", the USF high-cost support mechanisms in all forms were replaced, effective January 1, 2012, with CAF Phase I frozen support pursuant to the FCC's CAF/ICC Order (as defined herein). The USF was and its successor, the CAF, is funded by monthly fees charged to interexchange carriers and LECs. Until 2012, the USF made payments to us on a monthly basis based upon our cost support for LECs whose cost of providing the local loop connections to customers is significantly greater than the national average. For our rural service areas, these USF payments fluctuated based upon our average cost per loop compared to the national average cost per loop. For our non-rural service areas, these USF payments were based on cost models which estimate the cost to provide services and generate universal service support payments for high-cost areas. As described below in "Item 1. Business—Regulatory Environment", our 2012 CAF Phase I frozen support revenue was not calculated in this manner. Instead, it is transitional funding based upon and equal to all forms of our 2011 USF high-cost support revenue. CAF Phase I frozen support payments, which replaced all forms of USF high-cost payments, account for less than 2% of our total revenue in the year ended December 31, 2012. We expect to continue to receive the same level of CAF Phase I frozen support revenue during 2013 until the Federal Communications Commission ("FCC") completes its proceedings to adopt a CAF cost model and develop CAF Phase II for our operating areas. At such time, we will accept or refuse that funding based on our evaluation of the cost of our obligations associated with the funding. It is not clear if the FCC will complete its CAF Phase II proceeding during 2013.

Access

Network Transport Services. We offer network transport services to wholesale customers for their use in connecting end users to the interexchange networks of the wholesale customer. These network transport services include special access services, which are primarily DS1 and DS3 services, and high speed digital services, which are primarily Ethernet-based services provisioned over fiber and copper facilities. We also offer carrier Ethernet services throughout our market to our business and wholesale customers, which includes Ethernet virtual circuit technology for cellular backhaul.

Network Switched Access Service. Network access enables long distance companies to utilize our local network to originate or terminate intrastate and interstate communications. Network switched access charges relate to long distance, or toll calls, that typically involve more than one company in the provision of telephone service as well as to the termination of interexchange private line services. Since toll calls and private line services are generally billed to the customer originating the call or ordering the private line service, a mechanism is required to compensate each company providing services relating to the service. This mechanism is the access charge and we bill access charges to long distance companies and other customers for the use of our facilities to access the customer, as described below. Network switched access compensation is subject to the FCC's CAF/ICC Order (as defined herein), as described below in "Item 1. Business—Regulatory Environment." Under the new rules, network switched access revenues are expected to continue to decline, but on a more predictable basis with fewer disputes.

Intrastate Access Charges. We generate intrastate access revenue when an intrastate long distance call involving an interexchange carrier is originated by a customer in one of our exchanges to a customer in another exchange in the same state, or when such a call is terminated to a customer in one of our local exchanges. We also generate intrastate access revenue when an interexchange carrier orders special access to connect interexchange private line services, such as HSD services, to a customer in one of our local exchanges. The interexchange carrier pays us an intrastate access payment for either terminating or originating the communication. We bill access charges relating to such service through our carrier access billing system and receive the access payment from the interexchange carrier. Access charges for intrastate services are regulated and approved by the state regulatory authority and are also subject to the rate transitions by the FCC in its CAF/ICC order (as defined herein).

Interstate Access Charges. We generate interstate access revenue when an interstate long distance call is originated by a customer in one of our exchanges to a customer in another state, or when such a call is terminated to a customer in one of our exchanges. We also generate interstate access revenue when an interexchange carrier orders special access to connect interexchange private line services using DS1s, DS3s or Ethernet private line ("E-LINE") access to a customer in one of our local exchanges. We bill interstate access charges in the same manner as we bill intrastate access charges; however, interstate access charges are regulated and approved by the FCC instead of the state regulatory authority.

Other Services

We seek to capitalize on our LECs' local presence and network infrastructure by offering enhanced services to customers, as well as special purpose projects for customers.

Directory Services. Through our local telephone companies, we publish telephone directories in some of our locations. These directories provide white page listings, yellow page listings and community information listings. We contract with leading industry providers to assist in the sale of advertising and the compilation of information, as well as the production, publication and distribution of these directories.

Video. In certain of our markets, we offer video services to our customers by reselling DirecTV content and providing cable and IP television video-over-DSL.

Value Added Services. In targeted markets, we offer additional value added and convenience-based services for our customers including power utility offerings through a marketing arrangement, conference calling services for business and residential customers, among others. We are continually working to build stronger relationships with our customers as their needs evolve.

Special Purpose Projects. Upon request from customers, we provide project-based implementation support services. These services are provided on a time and materials basis at the customer location as part of a larger FairPoint solution. This capability allows us to better serve our customers and assist in filling in resource gaps they may encounter when implementing new communications plans.

Our Markets

Most of our 32 LECs (after the 2013 sale of our operations in Idaho) operate as the incumbent local exchange carrier ("ILEC") in each of their respective markets with business, wholesale and residential customers in addition to broadband subscribers. The following chart identifies the number of access line equivalents and percentage thereof by customer type as of December 31, 2012 and 2011, respectively:

Access Line Equivalents by Type	December 31, 2012		December 31, 2011	
Residential	586,725	45.9%	645,453	47.9%
Business	299,701	23.5%	311,241	23.1%
Wholesale	65,641	5.1%	76,065	5.7%
Total voice access lines	**952,067**	**74.5%**	**1,032,759**	**76.7%**
Broadband subscribers	326,367	25.5%	314,135	23.3%
Total access line equivalents (1)	**1,278,434**	**100.0%**	**1,346,894**	**100.0%**

(1) On January 31, 2013, we completed the sale of our operations in Idaho which accounted for 5,604 and 5,536 access line equivalents at December 31, 2012 and 2011, respectively.

Our operations are primarily focused in rural communities and small urban markets and are geographically concentrated in the northeastern United States. The following chart identifies the number of access line equivalents and percentage thereof in each of our 18 states as of December 31, 2012 and 2011, respectively:

Access Line Equivalents by State	December 31, 2012		December 31, 2011	
Maine	452,743	35.4%	480,559	35.7%
New Hampshire	363,495	28.4%	386,407	28.7%
Vermont	264,266	20.7%	274,958	20.4%
Florida	47,394	3.7%	49,087	3.6%
New York	43,901	3.4%	45,500	3.4%
Washington	40,000	3.1%	41,536	3.1%
Missouri	13,147	1.0%	13,476	1.0%
Ohio	12,089	1.0%	12,534	0.9%
Virginia	8,320	0.7%	8,436	0.6%
Kansas	6,202	0.5%	6,398	0.5%
Idaho (1)	5,604	0.4%	5,536	0.4%
Pennsylvania	5,564	0.4%	5,757	0.4%
Illinois	5,393	0.4%	5,769	0.4%
Oklahoma	4,101	0.3%	4,160	0.3%
Colorado	3,160	0.3%	3,597	0.3%
Other states (2)	3,055	0.3%	3,184	0.3%
Total access line equivalents	**1,278,434**	**100.0%**	**1,346,894**	**100.0%**

(1) On January 31, 2013, we completed the sale of our operations in Idaho.

(2) Includes Massachusetts, Georgia and Alabama.

Sales and Marketing

We have a customer-oriented marketing approach that emphasizes our advanced network and reliable service. Each of our LECs has a long history in the communities it serves. It is our practice to maintain and enhance the strong brand recognition and reputation that each LEC enjoys in its markets, as we believe this is a significant competitive advantage. As we market new services, we will seek to continue to utilize our brand recognition in order to attain higher recognition with potential customers. We have approximately 3,300 employees who work and live in the markets where we provide service.

In our Northern New England operations, VantagePoint℠ services are provided on our state-of-the-art network available through our IP-based network in three contiguous states. These services provide Ethernet connections that support video conferencing, e-learning and other broadband based applications and have a level of coverage and capacity that we believe is unmatched in our marketplace. We have divided our Northern New England operations efforts into five distinct markets: residential, small and medium business, large business and enterprise, government and education, and wholesale. Marketing plans, distribution strategies, opportunities and tactics are tailored to each of these markets using call center or direct sales based approaches.

Our sales organization utilizes an inbound call center for residential distribution. Marketing activities and campaigns are targeted at specific residential markets, driving calls to the sales call centers. For our business customers, we leverage an inbound call center for small business and a direct sales force for all other business clients. The direct sales force focused on small and medium business is assigned by geography, covering a dedicated sales territory. The direct sales force focused on large and enterprise business utilizes a named account program. The government and education and wholesale teams also utilize a named account approach, focusing on specific new and existing customers within their annual sales plans. Sales resources include account managers, support representatives and sales engineers, and are customized based on account size and need.

Information Technology and Support Systems

We have a customer-focused approach to information technology ("IT") which allows for efficient business operations and supports revenue growth. Our approach is to simplify and standardize processes in order to optimize the benefits of our back-office and operation support systems. Specifically, our "simplify and optimize" initiative targets the reduction of redundant and manual processes to reduce cycle times, improve efficiency and deliver enhanced customer service.

Our back-office and operations support systems are a combination of integrated off-the-shelf packages that have been customized to support our operations as well as software as a service solution. Our Northern New England operations carrier access billing and our Telecom Group billing operations are supported by fully outsourced third-party platforms.

Our systems are supported by a combination of employees and contractors. Our internal IT group supports data center operations, data network operations, internal help desk, desktop support and phases of the systems development life cycle. We use professional services firms for the majority of software development and maintenance.

Network Architecture and Technology

Rapid and significant changes in technology are underway in the communications industry. Our success depends, in part, on our ability to anticipate and adapt to technological changes. With this in mind, we continue to build and expand our advanced Next Generation Network in our Northern New England operations. The Next Generation Network is an IP/MPLS network with over 15,000 miles of fiber optic cable. This network is the largest IP/MPLS based network in northern New England. We have made significant investments in our fiber optic network to expand our business service offerings to meet the growing needs of our customers and to increase broadband speeds and capacity in our consumer markets. We expect to continue to invest in expanding the reach of our fiber network to connect directly to customers' premises, cellular towers and data centers. We believe this network architecture will enable us to efficiently respond to these technological changes.

Next Generation Network transport systems in our Northern New England operations and our Telecom Group are a combination of Synchronous Optical Network, Dense Wave Division Multiplexing and Ethernet transport capable of satisfying customer demand for high speed bandwidth transport services. This system supports advanced services including carrier Ethernet services and legacy data products such as Frame Relay and Asynchronous Transfer Mode ("ATM"), facilitating delivery of advanced services as demand warrants.

In our LEC markets, DSL-enabled access technology has been deployed to provide significant broadband capacity to our customers. As of December 31, 2012, nearly all of our central offices are capable of providing broadband services through DSL technology, cable modem and/or wireless broadband.

During 2012, we expanded our broadband availability across our 17-state territory (after the 2013 sale of our operations in Idaho). We have committed to expand our broadband footprint in New Hampshire to reach 95% of our customers in the state by December 31, 2013. We have also made significant updates to our network in rural communities in the 17 states (after the 2013 sale of our operations in Idaho) served by our Telecom Group, bringing greater network speed to our customers. Our LEC network consists of 89 host central offices and 419 remote central offices, all with digital switches. Approximately 99% of our central offices are served by fiber optic facilities, which we own. The primary interconnection with other incumbent carriers is also fiber optic. Our outside plant consists of both fiber optic and copper distribution networks.

Competition

The telecommunications industry is comprised of companies involved in the transmission of voice, data and video communications over various media and through various technologies. There are two predominant types of local telephone service providers, or carriers, in the telecommunications industry: ILECs and CLECs. ILECs were the traditional monopoly providers of the local telephone service prior to the passage of the Telecommunications Act of 1996 (the "1996 Act"). A CLEC is a competitor to local telephone companies that has been granted permission by a state regulatory commission to offer local telephone service in an area already served by an ILEC. The 1996 Act provides, in general, for the removal of barriers to market entry in order to promote competition in the provision of local telecommunications and information services. As a result, competition in local exchange service areas for voice and data services has increased and is expected to continue to increase from CLECs, wireless providers, cable companies, Internet service providers, long distance service providers, satellite companies and other wireline carriers.

In addition, in recent years the United States telecommunications industry has undergone significant structural changes. Many of the largest service providers have achieved growth through acquisitions and mergers, while an increasing number of competitive providers have restructured or entered bankruptcy to obtain protection from creditors. Since 2001, capital in the form of public financing has been generally difficult to obtain for new entrants and competitive providers. Capital constraints have caused a number of competitive providers to change their business plans, resulting in consolidation of the industry.

Regulations and technology change quickly in the communications industry, and these changes have historically had, and are expected to continue in the future to have, a significant impact on competitive dynamics. For instance, the ubiquity of wireless networks coupled with technology changes, such as VoIP, and data-driven devices (i.e. smartphones, computer tablets and netbooks), are creating increased competition and technology substitution, a trend we expect will continue for the foreseeable future. Public monies in the form of stimulus funds to build broadband networks are also providing a new source of competition for us. In addition, many of our competitors have access to larger workforces or have substantially greater name-brand recognition and financial, technological and other resources than we do. Moreover, some of our competitors, including wireline, wireless and cable, have formed and may continue to form strategic alliances to offer bundled services in our service areas.

We estimate that, as of December 31, 2012, most of the customers that we serve have access to voice, network transport and Internet services through a cable television company. In addition, increasingly, both CLECs and cable companies have begun to penetrate the market for high capacity circuits for large businesses and carriers, including interexchange and wireless providers. Lastly, in most of our service areas, we face competition from wireless carriers for voice and high speed data services.

Therefore, we face intense competition from a variety of sources for our voice and data services in most of the areas we now serve, many of whom have greater resources and access to capital and we expect that such competition will continue to intensify in the future. This competition has had an adverse impact on our access lines, broadband subscriber growth rates and revenues.

We use numerous strategies to address these competitive pressures and changes in customer behavior. Our strategies are focused on maintaining connections with our customers through enhanced products and services and generating new revenues through new customer growth, win-backs of former customers and new product development. We offer attractive packages of value-added services that feature HSD along with local, long distance calling, enhanced telephone features and video offerings.

For our business customers, we believe that the reliability and reach of our network is a competitive advantage particularly with regionally based enterprises in segments like healthcare and banking. Business customers rely on us for voice services, but continually seek higher capacity data services, as provided through our Ethernet portfolio. We are expanding the training of employees selling and servicing our enterprise customers with sophisticated products and services.

See "—Regulatory Environment" herein and "Item 1A. Risk Factors" included elsewhere in this Annual Report for more information regarding the competition that we face.

Employees

As of December 31, 2012, we employed a total of 3,369 employees, 2,161 of whom were covered by 15 collective bargaining agreements. As of December 31, 2012, 111 of our employees were covered by seven collective bargaining agreements that expire during 2013. Additionally, our collective bargaining agreements with the International Brotherhood of Electrical Workers ("IBEW") and the Communications Workers of America ("CWA") in Northern New England cover approximately 1,900 employees in the aggregate and expire in August 2014.

Intellectual Property

We believe we own or have the right to use all of the intellectual property that is necessary for the operation of our business as we currently conduct it.

Emergence from Chapter 11 Proceedings

On October 26, 2009 (the "Petition Date"), we filed voluntary petitions for relief under chapter 11 of title 11 ("Chapter 11") of the United States Code (the "Bankruptcy Code") in the United States Bankruptcy Court for the Southern District of New York (the "Bankruptcy Court"). These cases were jointly administered under the caption *In re FairPoint Communications, Inc.*, Case No. 09-16335 (each a "Chapter 11 Case", and collectively, the "Chapter 11 Cases"). On January 24, 2011 (the "Effective Date"), we substantially consummated our reorganization through a series of transactions contemplated by our Third Amended Joint Plan of Reorganization Under Chapter 11 of the Bankruptcy Code (as confirmed by the Bankruptcy Court, the "Plan").

The Plan provided for, among other things:

(i) the cancellation and extinguishment on the Effective Date of all our equity interests outstanding on or prior to the Effective Date, including but not limited to all outstanding shares of our common stock, par value $0.01 per share, options and contractual or other rights to acquire any equity interests,

(ii) the issuance of shares of our new common stock, par value $0.01 per share (the "Common Stock"), and the issuance of warrants (the "Warrants") to purchase shares of our Common Stock to holders of certain claims in connection with a warrant agreement that we entered into with the Bank of New York Mellon, as the warrant agent, on the Effective Date (the "Warrant Agreement"),

(iii) the satisfaction of claims associated with

 (a) the credit agreement, dated as of March 31, 2008, by and among FairPoint Communications, Spinco, Bank of America, N.A., as syndication agent, Morgan Stanley Senior Funding, Inc. and Deutsche Bank Securities Inc., as co-documentation agents, and Lehman Commercial Paper Inc., as administrative agent, and the lenders party thereto (as amended, supplemented or otherwise modified from time to time, the "Pre-Petition Credit Facility"),

 (b) the 13-1/8% senior notes due April 1, 2018 (the "Old 13-1/8% Notes"), which were issued pursuant to the indenture, dated as of March 31, 2008, by and between Spinco and U.S. Bank National Association, as amended, and

 (c) the 13-1/8% senior notes due April 2, 2018 (the "New 13-1/8% Notes" and, together with the Old 13-1/8% Notes, the "Pre-Petition Notes"), which were issued pursuant to the indenture, dated as of July 29, 2009, by and between, FairPoint Communications and U.S. Bank National Association, and

(iv) the termination by its conversion into the Old Revolving Facility (as defined below) of the Debtor-in-Possession Credit Agreement, dated as of October 27, 2009 (as amended, the "DIP Credit Agreement"), by and among FairPoint Communications and FairPoint Logistics, Inc. ("FairPoint Logistics", and together with FairPoint Communications, the "DIP Borrowers"), certain financial institutions (the "DIP Lenders") and Bank of America, N.A., as the administrative agent for the DIP Lenders (the "DIP Administrative Agent").

Our Common Stock began trading on the Nasdaq Stock Market LLC (the "NASDAQ") on January 25, 2011. In addition, on the Effective Date, FairPoint Communications and FairPoint Logistics (collectively, the "Old Credit Agreement Borrowers") entered into a $1,075.0 million senior secured credit facility with a syndicate of lenders and Bank of America, N.A., as the administrative agent for the lenders, arranged by Banc of America Securities LLC (the "Old Credit Agreement"), comprised of a $75.0 million revolving facility (the "Old Revolving Facility") and a $1.0 billion term loan facility (the "Old Term Loan", and together with the Old Revolving Facility, the "Old Credit Agreement Loans"). As discussed below, we refinanced the Old Credit Agreement Loans on February 14, 2013. For more information about this refinancing, *see* "—February 2013 Refinancing" herein.

In connection with the Chapter 11 Cases, we also negotiated with representatives of the state regulatory authorities in Maine, New Hampshire and Vermont and agreed to regulatory settlements (each a "Regulatory Settlement", and collectively, the "Regulatory Settlements") with respect to (i) certain regulatory approvals relating to the Chapter 11 Cases and the Plan and (ii) certain modifications to the requirements imposed by state regulatory authorities as a condition to approval of the Merger. For more information regarding the Regulatory Settlements, *see* "—Regulatory Environment—New Legislation for Maine and New Hampshire" and "—Regulatory Environment—State Regulation—Regulatory Conditions to the Merger, as Modified in Connection with the Plan" herein.

On June 30, 2011 and on November 7, 2012, the Bankruptcy Court entered final decrees closing certain of the Company's bankruptcy cases due to such cases being fully administered. Of the 80 original bankruptcy cases, only the Chapter 11 Case of Northern New England Telephone Operations LLC (Case No. 09-16365) remains.

Fresh Start Accounting

Upon our emergence from the Chapter 11 bankruptcy proceedings, we adopted fresh start accounting in accordance with guidance under the applicable reorganization accounting rules, pursuant to which our reorganization value was allocated to our assets in conformity with guidance under the applicable accounting rules for business combinations, using the purchase method of accounting for business combinations. In addition to fresh start accounting, our consolidated financial statements reflect all effects of the transactions contemplated by the Plan. Therefore, our consolidated statements of financial position and consolidated statements of operations subsequent to the Effective Date are not comparable in many respects to our consolidated statements of financial position and consolidated statements of operations for periods prior to the Effective Date. For more information regarding fresh start accounting, *see* note (4) "Reorganization Under Chapter 11" to our consolidated financial statements in "Item 8. Financial Statements and Supplementary Data" included elsewhere in this Annual Report.

February 2013 Refinancing

On February 14, 2013 (the "Refinancing Closing Date"), we refinanced the Old Credit Agreement Loans (the "Refinancing"). In connection with the Refinancing, we (i) issued $300.0 million aggregate principal amount of 8.75% senior secured notes due 2019 (the "Notes") in a private offering exempt from registration under the Securities Act pursuant to an indenture (the "Indenture") that we entered into on the Refinancing Closing Date with certain of our subsidiaries that guarantee our indebtedness under the New Credit Agreement (as defined below) (the "Subsidiary Guarantors") and U.S. Bank National Association, as trustee (in such capacity, the "Notes Trustee") and collateral agent, and (ii) entered into a new credit agreement (the "New Credit Agreement"), dated as of the Refinancing Closing Date, with the lenders party thereto from time to time (each a "Lender", and together the "Lenders") and Morgan Stanley Senior Funding, Inc., as administrative agent (in such capacity, the "Administrative Agent") and letter of credit issuer. The New Credit Agreement provides for a $75.0 million revolving credit facility (the "New Revolving Facility") and a $640.0 million term loan facility (the "New Term Loan" and, together with the New Revolving Facility, the "New Credit Agreement Loans"). On the Refinancing Closing Date, we used the proceeds of the Notes offering, together with $640.0 million of borrowings under the New Term Loan and cash on hand to (i) repay principal of $946.5 million outstanding on the Old Term Loan, plus an additional approximately $7.7 million of accrued interest and (ii) pay approximately $33.0 million of fees, expenses and other costs relating to the Refinancing. For further information regarding the New Credit Agreement, the Notes and our repayment of the Old Credit Agreement Loans, *see* "Item 7. Management's Discussion and Analysis—Liquidity and Capital Resources" and note (20) "Subsequent Events" to our consolidated financial statements in "Item 8. Financial Statements and Supplementary Data" included elsewhere in this Annual Report.

Regulatory Environment

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

We are required to comply with the Communications Act which requires, among other things, that telecommunications carriers offer telecommunications services at just and reasonable rates and on terms and conditions that are not unreasonably discriminatory. The Communications Act contains requirements intended to promote competition in the provision of local services and to lead to deregulation as markets become more competitive.

The FCC's CAF/ICC Order (as defined herein) modified regulation for us beginning January 1, 2012. Effective January 1, 2012, the FCC eliminated the rural/non-rural distinction among ILECs and treats ILECs as either price cap or rate-of-return. Under the new rules, effective January 1, 2012, all of our ILECs are treated as price cap companies for CAF purposes, including the Telecom Group rate-of-return companies. However, the Telecom Group rate-of-return companies continue to be treated as rate-of-return for regulation of interstate switched and special access services. In addition, the FCC has preempted certain state regulation over our ILECs including capping all state originating and terminating switched access charges and reducing state switched access charges beginning July 1, 2012 in a two-year transition to make state switched access charges equal to interstate switched access charges.

Overview of FCC Order to Reform Universal Service and Intercarrier Compensation

On March 16, 2010, the FCC submitted the National Broadband Plan ("NBP") to the United States Congress ("Congress"). The NBP is a plan to bring high-speed Internet services to the entire country, including remote and high-cost areas. In accordance with the NBP, the FCC commenced several rulemakings that concern, among other things, reforming high-cost and low-income programs to promote universal service to make those funds more efficient while promoting broadband communications in areas that otherwise would be unserved and to address changes to interstate access charges and other forms of intercarrier compensation ("ICC").

On October 27, 2011, the FCC adopted an Order and Further Notice of Proposed Rulemaking ("NPRM") on universal service programs and ICC reform. On November 18, 2011, the FCC released its comprehensive and landmark order to modify the nationwide system of universal support and the ICC system (referred to hereafter as the "CAF/ICC Order"). In this order, the FCC replaced all existing USF for price cap carriers with its CAF. The intent of the CAF is to bring high speed affordable broadband services to all Americans. The CAF/ICC Order fundamentally reforms the ICC system that governs how communications companies bill one another for handling traffic, gradually phasing down these charges.

In conjunction with the CAF/ICC Order, the FCC adopted a NPRM to deal with related matters, including but not limited to: (i) the actual cost model to be adopted for CAF Phase II funding, (ii) treatment of originating access charges, (iii) modifications to CAF for rate-of-return ILECs, (iv) development of CAF Phase II for mobility, (v) CAF Phase II reverse auction rules, (vi) remote areas funding and (vii) IP to IP interconnection issues. It is not known what decisions will be made on these issues or how they may impact us. In general, CAF Phase I is interim support provided to price cap carriers during the period in which the FCC establishes its permanent CAF funding rules for CAF Phase II. CAF Phase I includes certain support structures, including frozen support and optional incremental support. CAF Phase I will continue until CAF Phase II is implemented, which is dependent on how long it takes the FCC to complete its CAF Phase II proceedings.

CAF Phase I and Phase II Support. Pursuant to the CAF/ICC Order, during 2012, we received monthly CAF Phase I frozen support, which is based on and equal to all forms of USF high-cost support we received during 2011. This support is considered transitional funding while the FCC is developing its CAF Phase II program. The CAF/ICC Order anticipates that CAF Phase I frozen support payments in 2012 will be replaced by CAF Phase II starting in 2013. However, it is likely that it may take longer for the FCC to complete its CAF Phase II proceeding and that CAF Phase I frozen support will continue into a portion or all of 2013. FCC rules require that if we continue receiving CAF Phase I frozen support beyond 2012, we will have specific broadband spending obligations starting in 2013. According to the FCC rules, in 2013 we will need to spend one-third of the frozen support to "build and operate broadband-capable networks used to offer the provider's own retail broadband service in areas substantially unserved by an unsubsidized competitor." Should we continue to receive CAF Phase I frozen support in 2014 and 2015, this spend obligation will increase to two-thirds and 100%, respectively.

Pursuant to the revised CAF programs, during 2012 we were offered $4.8 million of one-time funding under the FCC's CAF Phase I incremental support program. Under this program, we can use some or all of this support subject to certain restrictions. We notified the FCC that we will accept $2.0 million of CAF Phase I incremental support funding, which will primarily be used in Vermont. On September 10, 2012, we filed a petition, which is still pending, with the FCC asking it to waive its rules to allow us to use the remaining $2.8 million of CAF Phase I incremental support funding to bring high speed broadband services to 697 customer locations in the state of Maine.

FCC New Rules for ICC System. The CAF/ICC Order establishes rules to reform historical rules associated with local, state toll and interstate toll traffic exchanged among communications carriers including ILECs, CLECs, cable companies, wireless carriers and VoIP providers. The new rules, the majority of which were effective beginning July 1, 2012, establish separate rules for price cap carriers and rate-of-return carriers. Although the FCC order treats our rate-of-return carriers (including companies operating under average schedules) as price cap carriers for CAF funding, it treats them as rate-of-return carriers for purposes of ICC reform. For both price cap and rate-of-return carriers, the FCC establishes a multi-year transition of terminating traffic compensation to "bill and keep", or zero compensation. For both price cap and rate-of-return carriers, the FCC requires carriers to establish fiscal year 2011 ("FY2011") baseline compensation, which is the amount of relevant compensation billed during the period beginning October 1, 2010 and ending September 30, 2011, and collected by March 31, 2012. This FY2011 revenue is used as a starting point for revenue for the transitional period, which is six years for price cap operations and nine years for rate-of-return operations. For each operation, the FY2011 baseline revenue is reduced by a specified percent during each year of the transition, resulting in a target revenue for each tariff year. At the same time, the FCC rules require reductions in ICC rates for specified services and jurisdictions. As the recoverable revenue declines and the rates decline, any target revenue which will not be covered by ICC revenue can be recovered, in part, from end users through an access recovery charge ("ARC"). Price cap ILECs are permitted to implement monthly end user ARCs with five annual increases of no more than $0.50 for residential/single-line business consumers, for a total monthly ARC of no more than $2.50 in the fifth year; and $1.00 (per month) per line for multi-line business customers, for a total of $5.00 per line in the fifth year, provided that: (1) any such residential increases would not result in regulated residential end user rates that exceed the $30.00 residential rate ceiling; and (2) any multi-line business customer's total subscriber line charge ("SLC") plus ARC does not exceed $12.20. Rate-of-return ILECs are permitted to implement monthly end user ARCs with six annual increases of no more than $0.50 (per month) for residential/single-line business consumers, for a total ARC of no more than $3.00 in the sixth year; and $1.00 (per month) per line for multi-line business customers for a total of $6.00 per line in the sixth year, provided that: (1) such increases would not result in regulated residential end user rates that exceed the $30.00 Residential Rate Ceiling; and (2) any multi-line business customer's total SLC plus ARC does not exceed $12.20. If the combination of ICC and ARC revenue is not sufficient to cover the targeted revenue, then additional funding will be provided by the CAF in certain circumstances, though there is no guarantee that the ILEC will be made whole.

Vermont Incentive Regulation Plan

Effective April 1, 2011, we entered into an Incentive Regulation Plan ("IRP") for our northern New England Vermont service territory. The IRP included a 2011-2015 Amended Retail Service Quality Plan ("RSQP") which significantly reduced FairPoint's exposure to retail service quality index ("SQI") penalties from $10.5 million to $1.65 million. Additionally, the RSQP and related SQI penalties may be eliminated in Vermont during 2013 if we achieve certain retail service metrics. We believe the IRP and RSQP should allow our Northern New England operations' retail rates in Vermont to compete with those competitive carriers under a relatively level regulatory scheme, while preserving certain regulatory protections for consumers in areas where competition may not be adequate.

New Legislation for Maine and New Hampshire

During the middle of the fiscal year 2012, new legislation was enacted into law in both Maine and New Hampshire, which will decrease the scope of retail telecommunications regulation for us, eliminating many of the state-specific Merger conditions and providing us with increased ability to compete in the Maine and New Hampshire telecommunications marketplace. Effective August 10, 2012, the New Hampshire legislation enacted in its Session Laws of 2012, Chapter 177 (known as Senate Bill 48) ("SB 48"). SB 48 created a new class of telecommunications carriers known as "excepted local exchange carriers" ("ELECs") and our Northern New England operations qualify as an ELEC in New Hampshire. SB 48 essentially levels the regulatory scheme imposed upon New Hampshire telecommunications carriers and states that the New Hampshire Public Utilities Commission ("NHPUC") has no authority to impose or enforce any obligation on a specific ELEC that also is not applicable to all other ELECs in New Hampshire except with respect to:

(i) Obligations that arise pursuant to the Communications Act, as amended;

(ii) Obligations imposed on our Northern New England operations that arose prior to February 1, 2011 that relate to the availability of broadband services, soft disconnect processes and capital expenditure commitments within New Hampshire;

(iii) Obligations that relate to the provision of services to CLECs, interexchange carriers and wireless carriers, regardless of technology; or

(iv) Certain obligations related to telephone poles and carrier of last resort responsibilities.

In New Hampshire, beginning with the August 10, 2012 effective date of the legislation, our exposure to annual SQI penalties was eliminated (from $12.5 million to zero) and we have pricing discretion with respect to existing and new retail telecommunications services other than basic local exchange service and certain services provided to customers who qualify for the federal lifeline discount.

On April 12, 2012, Maine Governor Paul LePage signed Public Law 2011, Chapter 623 (also known as P.L. 2011, c.623) (the "Maine Deregulation Legislation") into law. The Maine Deregulation Legislation significantly deregulates retail telecommunications service offerings and reduces regulation applicable to ILECs, such as our Northern New England operations. The legislation eliminated regulatory oversight on all retail services other than the basic exchange service defined in Maine as Provider of Last Resort ("POLR") service and significantly reduced FairPoint's maximum exposure to SQI penalties, along with reducing the number of reportable retail metrics.

Under the Maine Deregulation Legislation, our maximum exposure to annual SQI penalties, during Maine's fiscal year ending July 31, 2013, will be decreased from $12.5 million to $2.0 million and we will have pricing discretion with respect to existing and new telecommunications services other than POLR services.

We estimate that these significant changes in both federal and state regulation did not and will not have a material impact in 2012 or 2013, respectively. However, in the long run, we are uncertain of the ultimate impact as federal and state regulation continues to evolve.

Access Charges

Our local exchange subsidiaries receive compensation from long distance telecommunications providers for the use of their network to originate and terminate state and interstate interexchange traffic. With respect to interstate traffic, the FCC regulates the prices we may charge for this purpose, referred to as access charges, as a combination of flat monthly charges paid by end users, usage sensitive charges paid by long distance carriers and recurring monthly charges for use of dedicated facilities paid by long distance carriers. Intrastate access charges are regulated by the state commissions. The amount of access charge revenue that we will receive is subject to change. The FCC has adopted, in its CAF/ICC Order, a plan to resolve certain billing disputes related to ICC and to transition all terminating state and interstate ICC to zero over a six or nine year period for price cap and rate-of-return companies, respectively.

The FCC's CAF/ICC Order significantly changes the existing rates for access charges, which, combined with the development of competition, have generally caused the aggregate amount of switched access charges paid by long distance carriers to decrease over time. The FCC, in a separate proceeding, is considering whether to modify price cap rules as they apply to special access and whether to restrict some of the pricing flexibility enjoyed by price cap ILECs, which includes some of our Northern New England operations. We cannot predict what changes, if any, the FCC may eventually adopt and the effect that any of these changes may have on our business.

Universal Service Regulation

Universal Service Support. USF disbursements were distributed only to carriers that are designated as "eligible telecommunications carriers" ("ETCs") by a state regulatory commission. All of our LECs were designated as ETCs. As previously described, the FCC has replaced the legacy USF high-cost programs with its CAF programs.

We benefit indirectly from support to low-income users under the Lifeline and Linkup universal service programs. Effective April 1, 2012, the Linkup program was eliminated for all low-income subscribers except for Native Americans. Linkup is a program which pays 50% of the non-recurring charges, not to exceed $30.00 per month, associated with establishment of local telecommunications service. Also effective April 1, 2012, there were major reforms to the Lifeline program. Prior to the changes, Lifeline credits were based on four tiers of support. The first three tiers of federal support were replaced by a flat credit of $9.25 per month. The fourth tier, which relates to Native Americans, is unchanged. In addition, the FCC established revised eligibility criteria effective April 1, 2012. The FCC order requires the Universal Service Administration Company ("USAC") to establish a national database by the end of 2013 which will be used to eliminate duplicate funding. It is not known how these changes will impact us. The elimination of duplicate support could result in fewer customers choosing us for Lifeline service, with the potential that a portion of our Lifeline customers may prefer to use other carriers for this service.

Universal Service Contributions. Federal universal service programs are currently funded through a surcharge on interstate and international end user telecommunications revenues. Declining long distance revenues, the popularity of service bundles that include local and long distance services, and the growth in size of the fund, due primarily to increased funding to competitive ETCs, all prompted the FCC to consider alternative means for collecting this funding. As an interim step, the FCC has ordered that providers of certain VoIP services must contribute to federal universal service funding. The FCC also increased the percentage of revenues subject to federal universal service contribution obligations that wireless providers may use as their methodology for funding universal service. We cannot predict whether the FCC or Congress will require modification to any of the universal contribution rules, or the ultimate impact that any such modification might have on us or our customers.

Local Service Regulation

The 1996 Act provides, in general, for the removal of barriers to market entry in order to promote competition in the provision of local telecommunications and information services. As a result, competition in our local exchange service areas will continue to increase from CLECs, wireless providers, cable companies, Internet service providers, electric companies and other providers of network services. Many of these competitors have a significant market presence and brand recognition, which could lead to more competition and a greater challenge to our future revenue growth.

Under the 1996 Act, all LECs, including both ILECs and CLECs, are required to: (i) allow others to resell their services, (ii) ensure that customers can keep their telephone numbers when changing carriers, referred to as local number portability, (iii) ensure that competitors' customers can use the same number of digits when dialing and receive nondiscriminatory access to telephone numbers, operator service, directory assistance and directory listing, (iv) ensure competitive access to telephone poles, ducts, conduits and rights of way and (v) compensate competitors for the cost of completing calls to competitors' customers from the other carrier's customers.

In addition to these obligations, ILECs are subject to additional requirements to: (i) interconnect their facilities and equipment with any requesting telecommunications carrier at any technically feasible point, (ii) unbundle and provide nondiscriminatory access to certain network elements, referred to as unbundled network elements ("UNEs"), including some types of local loops and transport facilities, at regulated rates and on nondiscriminatory terms and conditions, to competing carriers that would be "impaired" without them, (iii) offer their retail services for resale at wholesale rates, (iv) provide reasonable notice of changes in the information necessary for transmission and routing of services over the ILEC's facilities or in the information necessary for interoperability and (v) provide, at rates, terms and conditions that are just, reasonable and nondiscriminatory, for the physical co-location of equipment necessary for interconnection or access to UNEs at the ILEC's premises. Competitors are required to compensate the ILEC for the cost of providing these services.

Our Northern New England operations are subject to all of the above requirements. In addition, our Northern New England operations are subject to additional unbundling obligations that apply only to Bell Operating Companies. In contrast to the unbundling obligations that apply generally to ILECs, these Bell Operating Company-specific requirements mandate access to certain facilities (such as certain types of local loops and inter-office transport and local circuit switching) even where other carriers would not be "impaired" without them.

Our Telecom Group service companies are exempt from the additional ILEC requirements until the applicable rural carrier receives a bona fide request for these additional services and the applicable state authority determines that the request is not unduly economically burdensome, is technically feasible and is consistent with the universal service objectives set forth in the 1996 Act. This exemption is effective for all of the Telecom Group operations, except in Florida where the legislature has determined that all ILECs are required to provide the additional services as prescribed in the 1996 Act. Loss of a rural exemption by one or more of the Telecom Group operating companies could be achieved if the state commission grants such a petition filed by a competitor. Loss of the rural exemption would potentially expose the operation to additional local competition.

Long Distance Regulation

The FCC has required that ILECs that provide interstate long distance services originating from their local exchange service territories must do so in accordance with "non-structural separation" rules. These rules have required that our long distance affiliates (i) maintain separate books of account, (ii) not own transmission or switching facilities jointly with the local exchange affiliate and (iii) acquire any services from their affiliated LEC at tariffed rates, terms and conditions. Our Northern New England operations, which are Bell Operating Companies, are subject to a different set of rules allowing them to offer both long distance and local exchange services in the regions where they operate as Bell Operating Companies, subject to certain conditions with which we comply. In addition, our operations have been obligated under the FCC's "equal access" scripting requirement to read new customers a list of all available long distance carriers presented in random order. Not all of our competitors must comply with these requirements. Therefore, these requirements may put us at a competitive disadvantage in the interstate long distance market.

Other Obligations under Federal Law

We are subject to a number of other statutory and regulatory obligations at the federal level. For example, the Communications Assistance for Law Enforcement Act ("CALEA") requires telecommunications carriers to modify equipment, facilities and services to allow for authorized electronic surveillance based on either industry or FCC standards. Under CALEA and other federal laws, we may be required to provide law enforcement officials with call records, content or call identifying information, pursuant to an appropriate warrant or subpoena.

The FCC limits how carriers may use or disclose customer proprietary network information ("CPNI") and specifies what carriers must do to safeguard CPNI provided to third parties. Congress has enacted, and state legislatures are considering, legislation to criminalize the unauthorized sale of call detail records and to further restrict the manner in which carriers make such information available.

In addition, if we seek in the future to acquire companies that hold FCC authorizations, in most instances we will be required to seek approval from the FCC prior to completing those acquisitions. The FCC has broad authority to condition, modify, cancel, terminate or revoke operating authority for failure to comply with applicable federal laws or rules, regulations and policies of the FCC. Fines or other penalties also may be imposed for such violations.

Broadband and Internet Regulation

A Verizon petition asking the FCC to forbear from applying common carrier regulation to certain broadband services sold primarily to larger business customers was deemed granted by operation of law on March 19, 2006 when the FCC did not deny the petition by the statutory deadline. The U.S. Court of Appeals for the District of Columbia Circuit has rejected a challenge to that outcome. The forbearance deemed granted to Verizon has been extended to our Northern New England operations by the FCC in its order approving the Merger. In October 2007, the FCC stated its intention to define more precisely the scope of forbearance obtained by Verizon, but it has not yet done so. On October 4, 2011, tw telecom, inc. filed a petition with the FCC asking it to reverse the forbearance granted to Verizon by operation of law on March 19, 2006. Comments have been filed in this proceeding by FairPoint and other parties. Following reply comments, the FCC may issue an order on this petition. A similar petition was filed by a group of competing LECs on November 2, 2012 and has been put out for comment by the FCC. We do not know how this would be resolved or the impact it may have on us if the FCC reversed, eliminated or modified the forbearance granted to Verizon in 2006.

The FCC has imposed particular regulatory obligations on IP-based telephony. It has concluded that interconnected VoIP providers must comply with CALEA; provide enhanced 911 emergency calling capabilities; comply with certain disability access requirements; comply with the FCC's rules protecting CPNI; provide local number portability; and pay regulatory fees. The FCC released a statement of net neutrality principles favoring customer choice of content and services available over broadband networks. It has adopted open Internet access rules applicable to all broadband Internet access providers. However, we cannot predict what impact, if any, this may have on our business, financial condition, results of operations, liquidity and/or the market price of our outstanding securities. The FCC has preempted some state regulation of VoIP.

Additional rules and regulations may be extended to the Internet and to broadband Internet access. A variety of proposals are under consideration in both federal and state legislative and regulatory bodies. For example, the FCC is considering reclassifying the transport component of broadband service as a "telecommunications service." In addition, there has been increasing activity to increase regulatory oversight of third party billing on telephone bills and on cyber-security. We cannot predict whether the outcome of pending or future proceedings will prove beneficial or detrimental to our competitive position and our regulatory compliance costs.

On February 17, 2009, Congress enacted the American Recovery and Reinvestment Act of 2009 (the "Recovery Act") which, among other programs, provides for $7.2 billion for broadband development in unserved and underserved areas of the United States. There were several grants of stimulus funding under the Recovery Act in our Northern New England operating area and our other service areas and in particular for the overbuilding of our Next Generation Network. Networks built with these funds in such areas are competition for our products and services.

State Regulation

The local service rates and intrastate access charges of substantially all of our telephone subsidiaries are regulated by state regulatory commissions which typically have the power to grant and revoke authority for authorizing companies to provide communications services. In some states, our intrastate long distance rates are also subject to state regulation. States typically regulate local service quality, billing practices and other aspects of our business as well. As described above, intrastate access charges are subject to the transition plan established in the recent FCC's CAF/ICC Order.

Most state commissions have traditionally regulated LEC pricing through cost-based rate-of-return regulation. In recent years, however, state legislatures and regulatory commissions in most of the states in which our telephone companies operate have either reduced the regulation of LECs or have announced their intention to do so and we expect this trend will continue. Such relief may take the form of mandatory deregulation of particular services or rates; or it may consist of optional alternative forms of regulation ("AFOR"), which may involve price caps or other flexible pricing arrangements. Some of these deregulatory measures are described in greater detail below. We believe that some AFOR plans allow us to offer new and competitive services faster than under the traditional regulatory regimes.

The following summary addresses significant regulatory actions by regulatory agencies in Maine, New Hampshire and Vermont that have affected or are expected to affect our Northern New England operations:

Regulatory Conditions to the Merger, as Modified in Connection with the Plan. As required by the Plan, as a condition precedent to the effectiveness of the Plan, we were required to obtain certain regulatory approvals, including approvals from the public utility commissions in Maine and New Hampshire and the Vermont Public Service Board ("VPSB"). In connection with the Chapter 11 Cases, we negotiated Regulatory Settlements with representatives of the state regulatory authorities in Maine, New Hampshire and Vermont with respect to (i) certain regulatory approvals relating to the Chapter 11 Cases and the Plan and (ii) certain modifications to the requirements imposed by state regulatory authorities as a condition to approval of the Merger. These Regulatory Settlements addressed service quality issues, broadband build-out requirements, and certain other financial and management commitments. The commitments agreed to in these proceedings have, for the most part, been completed, are nearly completed, or are no longer applicable.

Maine Regulatory Settlement. On July 6, 2010, the Maine Public Utilities Commission (the "MPUC") provided its approvals for Maine, including the Regulatory Settlement for Maine. Among other requirements, the Maine Regulatory Settlement imposed obligations on us related to, among other things, retail service quality, broadband expansion and various management commitments. Several of these requirements were eliminated statutorily during 2012 upon the enactment of the Maine Deregulation Legislation or will expire during August 2013 concurrent with the expiration of our AFOR in Maine. *See* "—Regulatory Environment—New Legislation for Maine and New Hampshire" herein for more information on the Maine Deregulation Legislation.

With respect to our broadband expansion obligations, we agreed to adhere to the broadband coverage commitments prescribed in the MPUC's February 1, 2008 Order issued in Docket Nos. 2007-67 and 2005-155 (the "Maine Merger Order"), and all stipulations approved thereby. The Maine Regulatory Settlement extended the final broadband build-out commitments to 83% addressability by December 31, 2010, 85% addressability by July 31, 2012 and 87% addressability by March 31, 2013. Although we believe we met our broadband expansion obligations on December 31, 2010, a majority of the members of the MPUC disagreed with our assessment in an order of the MPUC dated January 11, 2012 (the "2012 MPUC Order"). We appealed this order to the State of Maine Supreme Judicial Court, which, in a decision dated January 24, 2013, upheld the 2012 MPUC Order. The broadband commitment milestones were stayed during our appeal of the 2012 MPUC Order pursuant to an order of the MPUC dated February 13, 2012 (the "Stay Order"). Pursuant to the Stay Order, we calculate the broadband expansion commitments to be 85% addressability by August 14, 2013 and 87% addressability by April 14, 2014. We do not expect the cost of compliance with the 2012 MPUC Order to be significant.

With respect to our management commitments, which we believe we fully have complied with, we agreed to, among other things:

(i) Establish a board of directors consisting of a supermajority of newly appointed independent directors, with at least one member of the board of directors residing in northern New England;

(ii) Appoint a regulatory sub-committee of the board of directors that will monitor compliance with the terms of the Maine Merger Order, as modified by the Maine Regulatory Settlement; and

(iii) Base any management bonuses on a combination of earnings before interest, taxes, depreciation, amortization and restructuring costs ("EBITDAR") with an unspecified percentage based upon service quality metrics.

New Hampshire Regulatory Settlement. On July 7, 2010, the NHPUC provided its approvals for New Hampshire, including the Regulatory Settlement for New Hampshire. Among other requirements, the New Hampshire Regulatory Settlement imposed obligations on us related to, among other things, retail service quality, broadband expansion, capital expenditure commitments and various management commitments. Nearly all of these obligations were eliminated statutorily during fiscal year 2012 upon the New Hampshire legislature's enactment of SB 48. *See* "—Regulatory Environment—New Legislation for Maine and New Hampshire" herein for more information on SB 48. With respect to our broadband expansion obligations, in conjunction with the Merger, we agreed to adhere to the broadband coverage commitments prescribed in the NHPUC's Order No. 24,823 in Docket DT 07-011; however, the final broadband build-out commitments were extended to March 31, 2013. In an order dated January 29, 2013, the NHPUC approved our proposal to utilize certain SQI penalties incurred during fiscal years 2009 and 2010 for further broadband expansion and to extend the broadband build-out commitment deadline to December 31, 2013. In the event we do not meet our expansion obligations, then penalties will be incurred. The first $500,000 of any penalty amount resulting from any failure to meet broadband commitments will be paid to the New Hampshire Telecommunications Planning and Development Fund. Any penalties above $500,000 will be invested within three years of the date of the penalty as additional expenditures for our New Hampshire network, subject to NHPUC approval. Of note, as of December 31, 2012, we have spent approximately $70.1 million on our New Hampshire broadband expansion efforts.

With respect to capital expenditures, we had committed to spend $285.4 million in capital expenditures in New Hampshire through March 31, 2013, of which the spend requirement was exceeded during fiscal year 2012.

Vermont Regulatory Settlement. On December 23, 2010, the VPSB provided its approvals in Vermont, including the Regulatory Settlement for Vermont. Among other requirements, the Vermont Regulatory Settlement imposed obligations on us related to, among other things, broadband expansion, capital expenditure commitments and various management commitments. Many of these requirements have been satisfied or are no longer applicable.

With respect to our management commitments, which we believe we fully have complied with, we agreed to, among other things:

(i) Establish a board of directors consisting of a supermajority of newly appointed independent directors, with at least one member of the board of directors residing in northern New England;

(ii) Appoint a regulatory sub-committee of the board of directors that will monitor compliance with the terms of the February 15, 2008 Order RE: MODIFIED PROPOSAL IN Docket Number 7270, as modified by the Vermont Regulatory Settlement; and

(iii) Base any management bonuses on a combination of EBITDAR with an unspecified percentage based upon service quality metrics.

Local Government Authorizations

We may be required to obtain from municipal authorities permits for street opening and construction or operating franchises to install and expand facilities in certain communities. If we more fully enter into video markets, municipal franchises may be required for us to operate as a cable television provider. Some of these franchises may require the payment of franchise fees. We have historically obtained municipal franchises as required. In some areas, we will not need to obtain permits or franchises because the subcontractors or electric utilities with which we will have contracts already possess the requisite authorizations to construct or expand our networks. In association with the Recovery Act, there may be an increase in our requirements associated with road move requests pursuant to new funding for roads. It is not certain whether funding will be available to us for this potential obligation.

Environmental Regulations

Like all other local telephone companies, our 32 LECs (after the 2013 sale of our operations in Idaho) are subject to federal, state and local laws and regulations governing the use, storage, disposal of and exposure to hazardous materials, the release of pollutants into the environment and the remediation of contamination. As an owner of real property, we could be subject to environmental laws that impose liability for the entire cost of cleanup at contaminated sites, regardless of fault or the lawfulness of the activity that resulted in contamination. We believe, however, that our operations are in substantial compliance with applicable environmental laws and regulations.

Other Information

We make available free of charge on our website, www.fairpoint.com, our reports on Forms 10-K, 10-Q and 8-K and all amendments to such reports as soon as reasonably practical after we file such material with, or furnish such material to, the SEC. Our filings with the SEC are available to the public over the Internet at the SEC's website at *www.sec.gov*, or at the SEC's public reference room located at 100 F Street, N.E., Washington, DC 20549. Please call the SEC at 1-800-SEC-0330 for further information on the operation of the public reference room.

ITEM 1A. RISK FACTORS

Any of the following risks could materially adversely affect our business, consolidated financial condition, results of operations, liquidity and/or the market price of our outstanding securities. The risks described below are not the only risks facing us. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial may also materially and adversely affect our business operations.

Risks Related to our Common Stock and Our Substantial Indebtedness

The price of our Common Stock may be volatile and may fluctuate substantially, which could negatively affect holders of our Common Stock.

The market price of our Common Stock may fluctuate widely as a result of various factors, including but not limited to period-to-period fluctuations in our operating results, the volume of sales of our Common Stock, dilution, developments in the communications industry, the failure of securities analysts to cover our Common Stock, changes in financial estimates by securities analysts, short interests in our Common Stock, competitive factors, regulatory developments, economic and other external factors, general market conditions and market conditions affecting the stock of communications companies in general. 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 our 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, which could have a material adverse impact on our business, financial condition, results of operations, liquidity and/or the market price of our Common Stock.

We have substantial indebtedness which could have a negative impact on our financing options and liquidity position and prevent us from fulfilling our obligations under our indebtedness.

As of December 31, 2012, on a pro forma basis after giving effect to the consummation of the Refinancing, the 2013 divestiture of our operations in Idaho and subsequent 2013 repayments on the Old Credit Agreement, our total indebtedness would have been approximately $942.7 million (including approximately $2.7 million of capital leases) and $63.0 million would have been available for borrowing under the New Revolving Facility, net of $12.0 million outstanding letters of credit. Our substantial indebtedness could have important consequences including:

- making it more difficult for us to satisfy our obligations under our debt agreements;
- requiring us to dedicate a significant portion of our cash flow from operations to paying the principal of and interest on our indebtedness, thereby limiting the availability of our cash flow to fund future capital expenditures, working capital and other corporate purposes;
- limiting our ability to obtain additional financing in the future for working capital, capital expenditures or acquisitions;
- limiting our ability to pay dividends to our stockholders;
- limiting our ability to refinance our indebtedness on terms acceptable to us or at all;
- restricting us from making strategic acquisitions or causing us to make non-strategic divestitures;

- limiting our flexibility in planning for, or reacting to, changes in our business and the communications industry generally;
- placing us at a competitive disadvantage compared with competitors that have a less significant debt burden; and
- making us more vulnerable to economic downturns and limiting our ability to withstand competitive pressures.

Our ability to continue to fund our debt service requirements and to reduce debt may be affected by general economic, financial market, competitive, legislative and regulatory factors, among other things. An inability to fund our debt service requirements, reduce debt or satisfy debt covenant requirements could have a material adverse effect on our business, financial condition, results of operations, liquidity and/or the market price of our outstanding securities.

In addition, a substantial portion of our indebtedness, including borrowings under the New Credit Agreement, bears interest at variable rates. If market interest rates increase, our variable rate debt will create higher debt service requirements, which could adversely affect our cash flow. In addition, interest payments on the New Term Loan based on a British Bankers Association LIBOR rate ("LIBOR") are subject to a floor of 1.25%. While LIBOR remains below 1.25% we may incur interest costs above market rates. While we may enter into agreements limiting our exposure to higher interest rates, such agreements may not offer complete protection from this risk.

Despite our substantial indebtedness level, we will still be able to incur significant additional amounts of debt, which could further exacerbate the risks associated with our substantial indebtedness.

We may be able to incur substantial additional indebtedness in the future. Although the New Credit Agreement and the Indenture contain restrictions on the incurrence of additional indebtedness, these restrictions are subject to a number of significant qualifications and exceptions and, under certain circumstances, the amount of indebtedness that could be incurred in compliance with these restrictions could be substantial. If new debt, including future shared collateral debt, is added to our existing debt levels, the related risks that we now face could increase.

To operate and expand our business, service our indebtedness and meet our other cash needs, we will require a significant amount of cash, which may not be available to us. We may not be able to generate sufficient cash to repay or refinance our indebtedness at maturity or otherwise or to fund our operations and capital expenditure needs, and may be forced to take other actions to satisfy such obligations, which may not be successful.

Our ability to make payments on, or repay or refinance, our indebtedness, to fund our operations and to fund planned capital expenditures, unanticipated capital expenditures and other cash needs will depend largely upon our financial condition and operating performance, including our ability to execute on our business plan. Our future operating performance, to a certain extent, is subject to general economic, financial, competitive, legislative, regulatory and other factors, such as any pension contributions required by the Employee Retirement Income Security Act of 1974, as amended ("ERISA"), that are beyond our control. In addition, our ability to incur additional debt in the future will depend on our satisfaction of the covenants in the agreements governing our indebtedness. Specifically, we will need to maintain specified financial ratios and satisfy financial condition tests. If we are unable to generate sufficient cash from our operations to allow us to meet our debt service requirements, fund our operations and make necessary capital expenditures, we would have to consider other options, some of which may not be available to us due to limitations imposed by our existing financing arrangements, including:

- sales of assets;
- reduction or delay of capital expenditures, strategic acquisitions, investments and alliances;
- obtaining additional capital in the form of equity or debt; or
- negotiations with our lenders to restructure or refinance the applicable debt.

We can provide no assurance that we would be able to refinance any of our indebtedness on commercially reasonable terms, or at all. Our ability to restructure or refinance our debt will depend on the condition of the capital markets and our financial condition at such time. Any refinancing of our debt could be at higher interest rates and may require us to comply with more onerous covenants, which could further restrict our business operations. These alternative measures may not be successful and may not permit us to meet our scheduled debt service obligations. In addition, the agreements governing our indebtedness may restrict, or market or business conditions may limit, our ability to take some of these actions or the effectiveness of these actions.

An inability to generate sufficient cash from operations to repay or refinance our indebtedness at maturity or otherwise or to fund our operations could have a material adverse impact on our business, financial condition, results of operations, liquidity and/or the market price of our outstanding securities.

Our debt agreements contain restrictions that limit our flexibility in operating our business.

The New Credit Agreement and the Indenture contain various covenants that limit our ability to engage in specified types of transactions. These covenants limit us and our restricted subsidiaries' ability to, among other things:

- incur additional indebtedness;
- pay dividends on, repurchase or make distributions in respect of our capital stock or make other restricted payments;
- make certain investments;
- sell certain assets;
- create liens;
- enter into sale and leaseback transactions;
- consolidate, merge, sell or otherwise dispose of all or substantially all of our assets; and
- enter into certain transactions with our affiliates.

A breach of any of these covenants could result in a default under the New Credit Agreement or the Indenture, including as a result of cross default provisions. Such default may allow the creditors to accelerate the related debt and may result in the acceleration of any other debt to which a cross-acceleration or cross-default provision applies. In addition, any debt agreements we enter into in the future may further limit our ability to enter into certain types of transactions.

In addition, the restrictive covenants in the New Credit Agreement require us to maintain specified financial ratios and to satisfy other financial condition tests. Our ability to meet those financial ratios and tests depends on our ongoing financial and operating performance, which, in turn, is subject to economic conditions and to financial, market and competitive factors, many of which are beyond our control. *See* "Item 7. Management's Discussion and Analysis of Financial Conditions and Results of Operations—Liquidity and Capital Resources" and note (20) "Subsequent Events" to our consolidated financial statements in "Item 8. Financial Statements and Supplementary Data" included elsewhere in this Annual Report for more information regarding the New Credit Agreement and the Indenture.

FairPoint Communications is a holding company and depends upon the cash flows of its operating subsidiaries to service its indebtedness and meet its other cash flow needs.

FairPoint Communications is a holding company and conducts no operations. Accordingly, its cash flow and its ability to make payments on, or repay or refinance, its indebtedness and to fund planned capital expenditures and other cash needs will depend largely upon the cash flows of its operating subsidiaries and the payment of funds by those subsidiaries to it in the form of repayment of loans, dividends, management fees or otherwise. Distributions to FairPoint Communications from its subsidiaries will depend on their respective operating results and will be subject to restrictions under, among other things,

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

FairPoint Communications' subsidiaries have no obligation, contingent or otherwise, to make funds available, whether in the form of loans, dividends or other distributions, to it. Any inability to receive distributions from its subsidiaries could have a material adverse impact on its business, financial condition, results of operations, liquidity and/or the market price of our outstanding securities.

Limitations on our ability to use NOL carryforwards, and other factors requiring us to pay cash to satisfy our tax liabilities in future periods, may affect our ability to repay our indebtedness.

As of December 31, 2011, our NOLs have been substantially reduced by the recognition of gains on the discharge of certain debt pursuant to the Plan. In addition, our emergence from bankruptcy resulted in an ownership change for federal income tax purposes under Section 382 of the Internal Revenue Code of 1986, as amended (the "Code"). This followed previous ownership changes resulting from our initial public offering in February 2005, which resulted in an "ownership change" within the meaning of the United States federal income tax laws addressing NOL carryforwards, alternative minimum tax credits and other similar tax attributes. Moreover, the Merger with Spinco resulted in a further ownership change for these purposes. As a result of these ownership changes, there are specific limitations on our ability to use these NOL carryforwards and other tax attributes from periods prior to the initial public offering and the Merger. Although we do not expect that these limitations will materially affect our United States federal and state income tax liability in the near term, it is possible in the future if we were to generate taxable income in excess of the limitation on usage of NOL carryforwards that these limitations could limit our ability to utilize the carryforwards and, therefore, result in an increase in our United States federal and state income tax payments over the amount we otherwise would have, had we not experienced an ownership change. In addition, in the future we will be required to pay cash to satisfy our tax liabilities when all of our NOL carryforwards have been used or have expired. Limitations on our usage of NOL carryforwards, and other factors requiring us to pay cash taxes in the future, would reduce the funds available to fund our operations, make capital expenditures, service our indebtedness and pay dividends, if any, in the future, which could have a material adverse impact on our business, financial condition, results of operations, liquidity and/or the market price of our outstanding securities.

Concentration of ownership among stockholders may prevent new investors from influencing significant corporate decisions.

Based on Schedules 13D and 13G filed by the respective holders, as of February 14, 2013, there are some institutional holders who own 5% or more of our outstanding Common Stock. As a result, these stockholders may be able to exercise significant control over all matters requiring stockholder approval, including the election of directors, amendment of our certificate of incorporation and approval of corporate transactions and could gain significant control over our management and policies as a result thereof.

Future sales or the possibility of future sales of a substantial amount of our Common Stock may depress the price of our Common Stock.

Future sales, or the availability for sale in the public market, of substantial amounts of our Common Stock could adversely affect the prevailing market price of our Common Stock and could impair our ability to raise capital through future sales of equity securities. The market price of our Common Stock could decline as a result of sales of a large number of shares of our Common Stock in the market 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 us to obtain additional capital by selling equity securities in the future at a time and at a price that we deem appropriate.

As of February 28, 2013, we had 26,475,358 shares of Common Stock outstanding. All such shares are freely traded except for any shares of our Common Stock that may be held or acquired by our directors, executive officers, employee insiders and other affiliates, as that term is defined in the Securities Act, which will be restricted securities under the Securities Act. Restricted securities may not be sold in the public market unless the sale is registered under the Securities Act or an exemption from registration is available. In addition, Angelo Gordon & Co., L.P. ("Angelo Gordon") and entities advised by Angelo Gordon have certain registration rights with respect to the Common Stock they hold or may acquire in the future.

We may issue shares of our Common Stock, or other securities, from time to time as consideration for future acquisitions and investments. In the event any such acquisition or investment is significant, the number of shares of our Common Stock, or the number or aggregate principal amount, as the case may be, of other securities that we may issue may in turn be significant. We may also grant registration rights covering these shares or other securities in connection with any such acquisitions and investments.

We do not expect to pay any cash dividends for the foreseeable future.

We do not anticipate that we will pay any cash dividends on shares of our Common Stock for the foreseeable future. Because we are a holding company, our ability to pay dividends depends on our receipt of dividends from our operating subsidiaries. Any determination to pay dividends in the future will be at the discretion of our board of directors and will depend upon limitations imposed by results of operations, financial condition, contractual restrictions contained in the New Credit Agreement and the Indenture or indebtedness we may incur in the future, restrictions imposed by applicable law and other factors our board of directors may then deem relevant.

Our actual operating results may differ significantly from our guidance.

From time to time, we have released and may continue to release guidance regarding our future performance that represents our management's estimates as of the date of release. This guidance, which consists of forward-looking statements, is prepared by our management and is qualified by, and subject to, the assumptions and the other information contained or referred to in the release. Our guidance is not prepared with a view toward compliance with the published guidelines of the American Institute of Certified Public Accountants, and neither our independent registered public accounting firm nor any other independent expert or outside party compiles or examines the guidance and, accordingly, no such person expresses any opinion or any other form of assurance with respect thereto.

Guidance is based upon a number of assumptions and estimates that, while presented with numerical specificity, are inherently subject to significant business, economic and competitive uncertainties and contingencies, many of which are beyond our control and are based upon specific assumptions with respect to future business decisions, some of which will change. We generally state possible outcomes as high and low ranges which are intended to provide a sensitivity analysis as variables are changed but are not intended to represent our actual results which could fall outside of the suggested ranges. The principal reason that we release this data is to provide a basis for our management to discuss our business outlook with analysts and investors. Notwithstanding this, we do not accept any responsibility for any projections or reports published by any such outside analysts or investors.

Guidance is necessarily speculative in nature, and it can be expected that some or all of the assumptions or the guidance furnished by us will not materialize or will vary significantly from actual results. Accordingly, our guidance is only an estimate of what management believes is realizable as of the date of release. Actual results may vary from the guidance and the variations may be material. Investors should also recognize that the reliability of any forecasted financial data diminishes the farther in the future that the data is forecast. In light of the foregoing, investors are urged to put the guidance in context and not to place undue reliance on it.

Any inability to successfully implement our operating strategy or the occurrence of any of the events or circumstances discussed therein could result in the actual operating results being different than the guidance, and such differences may be materially adverse.

Risks Related to Our Business

We provide services to customers over access lines, and since we have been losing access lines, if our efforts to mitigate this decline and transition to alternative revenue is not successful, our business, financial condition, results of operations, liquidity and/or the market price of our outstanding securities may be materially adversely affected.

We, along with the telecommunications industry in general, have experienced a decline in access lines and network access revenues and will be further unfavorably impacted in the long-term by the FCC's recent CAF/ICC Order on intercarrier compensation. *See* "—Risks Relating to Our Regulatory Environment" herein for specific risks associated with the impact of regulatory reform. We generate revenue primarily by delivering voice and data services over access lines. During the years ended December 31, 2012 and 2011, respectively, we experienced access line equivalent loss of 5.1% and 5.0%. These losses resulted mainly from competition, including competition from bundled offerings by cable companies, the use of alternate technologies, including wireless, as well as challenging economic conditions and the offering of DSL services, which prompts some customers to cancel second line service. We believe that issues with transitioning certain back-office functions from Verizon's integrated systems to our systems and the Chapter 11 Cases have had and may continue to have an adverse effect on our ability to retain customers.

We expect to continue to experience net access line losses. Our strategy of growing broadband and advanced data services, such as Ethernet, over fiber and copper plant may not be sufficient to offset the revenue impact of continued voice access line loss. Our inability to retain access lines and successfully offset such losses with alternative revenue could adversely affect our business, financial condition, results of operations, liquidity and/or the market price of our outstanding securities.

We provide access services to other communications companies, and if these companies were to find alternative means of providing services, become insolvent or experience substantial financial difficulties, our business, financial condition, results of operations, liquidity and/or the market price of our outstanding securities may be materially adversely affected.

We originate and terminate calls on behalf of long distance carriers and other interexchange carriers over our network in exchange for payment of switched access charges. We provide dedicated connections between end users and interexchange carriers for the provision of special access service. Switched and special access services are included in access revenues, among other services, of which access revenues represented approximately 34.5% of our total revenues in 2012. Terminating switched access rates are scheduled to decline under the FCC's recent CAF/ICC Order. *See* "—Risks Relating to Our Regulatory Environment" herein for specific risks associated with the impact of regulatory reform. We may not be successful in offsetting these declines through regulatory replacement mechanisms or operational means. Further, should one or more of these carriers find alternative means of providing services, loss of revenues from these carriers could have a material adverse impact on our business, financial condition, results of operations, liquidity and/or the market price of our outstanding securities. In addition, should one or more of the carriers that we do business with become insolvent or experience substantial financial difficulties, our inability to timely collect access charges from them could have a material adverse impact on our business, financial condition, results of operations, liquidity and/or the market price of our outstanding securities.

We are subject to competition that may materially adversely impact our business, financial condition, results of operations, liquidity and/or the market price of our outstanding securities.

We face intense competition from a variety of sources for our voice, network transport and Internet services in most of the areas we now serve. Regulations and technology change quickly in the communications industry and changes in these factors historically have had, and in the future may have, a significant impact on competitive dynamics. In most of our service areas, we currently face competition from wireless carriers for voice services and increasingly for Internet services. As technology and economies of scale have improved, competition from wireless carriers has increased and is expected to further increase. We also face increasing competition from wireline and cable television companies for our voice and Internet services. We estimate that most of the customers that we serve have access to voice, network transport and Internet services through a cable television company. Wireline and cable television companies have the ability to bundle their services, which has and is expected to continue to intensify the competition we face from these providers. VoIP providers, Internet service providers and satellite companies also compete with our services and such competition has increased and is expected to continue to increase in the future. In addition, many of our competitors have access to a larger workforce and have substantially greater name-brand recognition and financial, technological and other resources including, in the case of cable television providers, free advertising spots on their video services.

In addition, consolidation and strategic alliances within the communications industry and the development of new technologies have had and may continue to have an effect on our competitive position. We 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 our business, financial condition, results of operations, liquidity and/or the market price of our outstanding securities.

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

- loss of customers (given the likelihood that when we lose customers for local service, we will also lose them for all related services);
- reduced network usage by existing customers who may use alternative providers for voice 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.

We 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 new service introductions occur frequently in the communications industry and industry standards evolve continually, including but not limited to a transition in the industry from primarily voice products to data services. We cannot predict the effect of these changes on our competitive position, profitability or the industry. Technological developments may reduce the competitiveness of our 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 our services. If we fail to adapt successfully to technological changes or obsolescence or fail to obtain access to important new technologies, we could lose customers and be limited in our ability to attract new customers and sell new services to our existing customers, which could have a material adverse impact on our business, financial condition, results of operations, liquidity and/or the market price of our outstanding securities.

The geographic concentration of our operations in Maine, New Hampshire and Vermont make our business susceptible to local economic and regulatory conditions and consumer trends, and an economic downturn, recession or unfavorable regulatory action in any of those states may materially adversely affect our business, financial condition, results of operations, liquidity and/or the market price of our outstanding securities.

Our service territory spans 17 states (after the 2013 sale of our operations in Idaho). As of December 31, 2012, on a pro forma basis after giving effect to the divestiture of our operations in Idaho, we would have had approximately 1.3 million access line equivalents, of which approximately 84.9% are located in Maine, New Hampshire and Vermont (including certain of our Telecom Group service companies). As a result of this geographic concentration, our financial results will depend significantly upon economic conditions and consumer trends in these markets. From January 1, 2012 through December 31, 2012, our operations in Maine, New Hampshire and Vermont (including certain of our Telecom Group service companies) experienced a 5.4% decline in total access line equivalents in service, compared to a decline of 3.6% for the remainder of our operations during the same period on a pro forma basis after giving effect to the divestiture of our operations in Idaho. Deterioration in economic conditions in any of these markets could result in a further decrease in demand for our services and resulting loss of access line equivalents which could have a material adverse effect on our business, financial condition, results of operations, liquidity and/or the market price of our outstanding securities.

In addition, if state regulators in Maine, New Hampshire or Vermont were to take an action that is adverse to our operations in those states, we could suffer greater harm from that action by state regulators than we would from action in other states because of the concentration of our operations in those states.

We may need to defend ourselves against claims that we infringe upon others' intellectual property rights or may need to seek third-party licenses to expand our product offerings.

From time to time, we receive notices from third parties or are named in lawsuits filed by third parties claiming we have infringed or are infringing upon their intellectual property rights. We may receive similar notices or be involved in similar lawsuits in the future. Responding to these claims may require us to expend significant time and money defending our use of affected technology, may require us to enter into licensing agreements requiring license payments that we would not otherwise have to pay or may require us to pay damages. If we are required to take one or more of these actions, our profit margins may decline. In addition, in responding to these claims, we may be required to stop selling or redesign one or more of our products or services, which could significantly and adversely affect the way we conduct business.

Similarly, from time to time, we may need to obtain the right to use certain patents or other intellectual property from third parties to be able to offer new products and services. If we cannot license or otherwise obtain rights to use any required technology from a third party on reasonable terms, our ability to offer new products and services may be restricted, made more costly or delayed.

We depend on third party providers for certain of our billing functions, IT services, including network support and improvements, and for the provision of our long distance and bandwidth services.

We have agreements with outside service providers to perform a portion of our billing functions and for our provision of long distance and bandwidth services. We also rely on certain third parties for IT services, including network support and improvements.

If these service providers are unable to adequately perform such services or if one of them experiences a significant degradation or failure with respect to such services, it could result in disruptions in our billing, IT systems and/or our long distance and bandwidth services. Furthermore, if these agreements are terminated for any reason, we may be unable to find an alternative service provider in a timely manner or on terms acceptable to us, and may be unable ourselves to perform the services they provide.

With respect to the agreements governing our long distance and bandwidth services, these agreements are based, in part, on our estimate of future supply and demand and may contain minimum volume commitments. If we overestimate demand, we may be forced to pay for services we do not need. If we underestimate demand, we 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, we will not be able to meet this demand. In addition, if we cannot meet any minimum volume commitments, we may be subject to underutilization charges, termination charges or rate increases.

If any of the foregoing events occurs with respect to our third-party providers, our business, financial condition, results of operations, liquidity and/or the market price of our outstanding securities could be materially adversely affected.

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

To be successful, we will need to continue to provide our customers reliable and uninterrupted service over our expanded network. Some of the risks to our network and infrastructure include:

- physical damage to our transmission network including poles, cable and access lines;
- widespread power surges or outages;
- software defects in critical systems;
- disruptions beyond our control; and
- capacity limitations resulting from changes in our customers' usage patterns.

From time to time, in the ordinary course of business, we have experienced and in the future may experience short disruptions in our service due to factors such as cable damage, inclement weather and service failures of our third-party service providers. We could experience more significant disruptions in the future. In addition, certain portions of our network may lack adequate redundancy to allow for expedient recovery of service to affected customers. Disruptions may cause interruptions in service or reduced capacity for customers, either of which could cause us to lose customers and incur expenses, which could have a material adverse impact on our business, financial condition, results of operations, liquidity and/or the market price of our outstanding securities.

Any failure or inadequacy of our IT infrastructure could harm our business.

A major failure or inadequacy of our IT infrastructure could harm our business. The capacity, reliability and security of our internal IT hardware and software infrastructure are important to the operation of our current and future business, which would suffer in the event of major system failures. Our inability to expand or upgrade our IT hardware and software infrastructure could have adverse consequences, which could include the delayed implementation of new service offerings, increased acquisition integration costs, service or billing interruptions, and service quality credits and the diversion of development resources.

A cyber-attack that bypasses our IT and/or network security systems causing an IT and/or network security breach may lead to unauthorized use or disabling of our network, theft of customer data, unauthorized use or publication of our intellectual property and/or confidential business information and could harm our competitive position or otherwise adversely affect our business.

Attempts by others to gain unauthorized access to organizations' IT systems or network elements are becoming more sophisticated and are sometimes successful. These attempts include covertly introducing malware to companies' computers and networks, impersonating authorized users, or "hacking" into systems. We seek to detect and investigate all security incidents and to prevent their recurrence, but, in some cases, we might be unaware of an incident or its magnitude and effect. Significant network security failures could result in the theft, loss, damage, unauthorized use or publication of our intellectual property and/or confidential business information; the theft, loss, damage, unauthorized use or publication of our customers' personally identifiable information, intellectual property and/or confidential business information; the unauthorized use or disabling of our network elements; or damage to our reputation among customers and the public. These consequences could harm our competitive position, subject us to additional regulatory scrutiny, expose us to litigation, reduce the value of our investment in research and development and other strategic initiatives or otherwise adversely affect our business. To the extent that any security breach results in inappropriate disclosure of our customers' or licensees' confidential information, we may incur liability as a result, which could be significant.

Natural catastrophes or terrorism may damage our network or adversely affect the financial markets.

A major earthquake, hurricane, tornado, flood, fire, terrorist attack, cyber-attack or other similar disruption could damage our network, network operations centers, call centers, data centers, central offices, corporate headquarters or other facilities. Such an event could interrupt our services, adversely affect service quality, overwhelm customer support and ultimately harm our business and reputation. Although we have implemented measures that are designed to mitigate the effects of such events, we cannot predict all of the potential impacts of such events. We maintain insurance coverage for some of these events; however, the potential liabilities associated with these events could exceed the insurance coverage we maintain. Our inability to operate our networks or operate key systems as a result of such events, even for a limited period of time, may result in significant expenses or loss of customers and associated revenue.

Even if the major event does not directly impact us, these events could more broadly cause consumer confidence and spending to decrease or result in increased volatility in the United States and world financial markets and economy, which would adversely affect our business.

Because our post-emergence consolidated financial statements reflect fresh start accounting adjustments made upon emergence from bankruptcy and because of the effects of the transactions that became effective pursuant to the Plan, financial information in our post-emergence financial statements is not comparable to our financial information from prior periods, including certain statements contained herein.

Upon our emergence from the Chapter 11 bankruptcy proceedings, we adopted fresh start accounting in accordance with guidance under the applicable reorganization accounting rules, pursuant to which our reorganization value was allocated to our assets in conformity with guidance under the applicable accounting rules for business combinations, using the purchase method of accounting for business combinations. In addition to fresh start accounting, our consolidated financial statements reflect all effects of the transactions contemplated by the Plan. Therefore, our consolidated statements of financial position and consolidated statements of operations subsequent to the Effective Date are not comparable in many respects to our consolidated statements of financial position and consolidated statements of operations for periods prior to the Effective Date.

In addition, as the Chapter 11 Cases remained open, our consolidated balance sheet upon our emergence from Chapter 11 included accruals for unresolved claims related to the Chapter 11 Cases. These accruals were based on management's best estimate of future settlements of such unresolved claims and are subject to adjustment subsequent to the Effective Date. To the extent that our negotiations result in favorable or unfavorable settlements in relation to the amount accrued, we recognize gains and/or losses in our consolidated statement of operations subsequent to the Effective Date.

Our success will depend on our ability to attract and retain qualified management and other personnel.

Our success depends upon the talents and efforts of our senior management team. The loss of any member of our 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 our business, financial condition, results of operations, liquidity and/or the market price of our outstanding securities.

Our ability to successfully manage reductions in our workforce could have a material adverse impact on our results of operations.

Reductions in our workforce could adversely impact our ability to operate effectively and, therefore, could adversely impact our customer service, result in higher regulatory penalties and/or reduce our ability to achieve our operational goals.

A significant portion of our workforce is represented by labor unions and therefore subject to collective bargaining agreements. If disputes arise, or if we are unable to successfully renegotiate these agreements at an appropriate time or on terms acceptable to us, workers subject to these agreements could engage in strikes or other work stoppages or slowdowns, which could materially adversely impact our business, financial condition, results of operations, liquidity and/or the market price of our outstanding securities.

As of December 31, 2012, 2,161 of our 3,369 employees were covered by 15 collective bargaining agreements. Our agreements with the IBEW and the CWA in northern New England cover approximately 1,900 employees in the aggregate and expire in August 2014. Disputes with regard to the terms of any of these agreements or our potential inability to negotiate acceptable contracts with these unions in the future as our current contracts expire could result in, among other things, strikes, work stoppages or other slowdowns by the affected workers. If unionized workers were to engage in a strike, work stoppage or other slowdown, we could experience a significant disruption of our operations or higher ongoing labor costs, either of which could have a material adverse effect on our business, financial condition, results of operations, liquidity and/or the market price of our outstanding securities. Additionally, future renegotiation of labor agreements or the provisions of such labor agreements could adversely impact our service reliability and significantly increase our costs for healthcare, wages and other benefits, which could have a material adverse impact on our business, financial condition, results of operations, liquidity and/or the market price of our outstanding securities.

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

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

Our required qualified pension contributions and estimated future qualified pension and post-retirement healthcare plan liabilities may be impacted by several factors and a significant increase in our required contributions could have a material adverse impact on our business, financial condition, results of operations, liquidity and/or the market price of our outstanding securities.

We sponsor qualified pension and post-retirement medical and dental plans for certain employees which require significant amounts of cash to maintain. The accrual of future benefits by employees and retirees in these qualified pension and post-retirement healthcare plans that are not covered by a collective bargaining agreement have been frozen. However, under the terms of our qualified pension and post-retirement healthcare plans for participants and retirees covered by a collective bargaining agreement, contractual increases in benefits will continue each year through 2014, at which time the collective bargaining agreements will terminate and be renegotiated. *See* "—Risks Related to Our Business—*A significant portion of our workforce is represented by labor unions and therefore subject to collective bargaining agreements. If disputes arise, or if we are unable to successfully renegotiate these agreements at an appropriate time or on terms acceptable to us, workers subject to these agreements could engage in strikes or other work stoppages or slowdowns, which could materially adversely impact our business, financial condition, results of operations, liquidity and/or the market price of our outstanding securities*" herein for more information. Future increases in benefits earned by participants and retirees in these plans may require increasing amounts of cash to maintain and may limit our operational flexibility. These future cash requirements could have a material adverse impact on our business, financial condition, results of operations, liquidity and/or the market price of our outstanding securities.

During 2012, as a condition of our collective bargaining agreements, qualified pension plan participants covered by a collective bargaining agreement did not have the option to elect a lump sum payment if they voluntarily terminated their employment with us. Beginning January 1, 2013, this restriction is no longer in effect and retirees again have the ability to elect to receive a portion of their accrued vested benefit in the form of a lump sum payment. In addition, the discount rates used to calculate lump sum payments are currently lower than the discount rate used to calculate the actuarial liabilities of the plan. As a result, the value of a lump sum payment is more than the respective actuarial liability, which creates an actuarial loss. As such, a lump sum payment depletes the plan's assets more than the corresponding reduction in the plan's liability, which reduces the funded status of the plan. If more participants covered by a collective bargaining agreement retire after January 1, 2013 than expected and elect to receive a portion of their accrued vested benefit in the form of a lump sum payment, which is beyond our control, we could experience a significant reduction in the funded status of our qualified pension plan covering these participants. If the funded status of our qualified pension plans decrease below certain percentage thresholds as defined in ERISA, then certain restrictions and other requirements would be placed on us and the participants in the respective plans which would significantly increase the cost of these plans. Accordingly, to maintain the funded status above these percentage thresholds may require us to make significantly higher contributions to these plans in the future. The extent of such increases in our contributions could have a material adverse impact on our business, financial condition, results of operations, liquidity and/or the market price of our outstanding securities.

Our qualified pension plans are subject to funding requirements as defined under ERISA. These required pension contributions may be impacted by several factors, including fluctuations in the discount rate used to calculate the funding target, the performance of our pension asset portfolio, the number of retirees who elect to receive lump sum distributions and the demographics of plan participants. Fluctuations or adverse changes in any of these factors are beyond our control and may diminish the funded status of our pension plans thereby significantly increasing the contributions we are required to make under ERISA. For example, economic factors have led to a significant decrease in the discount rate for our pension plans and certain workforce reductions resulted in a large amount of lump-sum payments being made to participants in 2011 and in 2012. These factors will increase our future contributions to the pension plans. The extent of such increases in our required contributions could have a material adverse impact on our business, financial condition, results of operations, liquidity and/or the market price of our outstanding securities.

During the year ended December 31, 2012, we experienced actual returns on qualified pension plan assets totaling approximately 9.7%. The actuarially-determined funded status of our pension plans is dependent on the market value of the assets held by each plan. As such, a significant decline in the market value of the pension plans' assets could result in us having to make additional contributions to these plans. Furthermore, if the third party trustee who holds these plan assets were to become insolvent, access to the plan assets could be limited for a period of time and we could be required to pay lump sum payments and benefits from our assets. Such required contributions and other payments could have a material adverse impact on our business, financial condition, results of operations, liquidity and/or the market price of our outstanding securities.

During 2012, certain legislative actions reduced the required pension contributions for the 2013 plan year. This reduced funding level could materially increase future funding requirements. There are no assurances any additional legislation will be passed that provides future relief for pension contributions. *See* "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources—Pension Contributions and Post-Retirement Healthcare Plan Expenditures" included elsewhere in this Annual Report.

Our long-lived assets and non-amortizable intangible asset may become impaired in the future.

Our long-lived assets, including our property, plant and equipment and amortizable intangible assets must be reviewed for impairment whenever indicators of impairment exist. Our non-amortizable intangible asset is required to be reviewed for impairment on an annual basis or more frequently whenever indicators of impairment exist. Indicators of impairment could include, but are not limited to:

- an inability to perform at levels that were forecasted;
- a permanent decline in market capitalization;
- implementation of restructuring plans;
- changes in industry trends; and/or
- unfavorable changes in our capital structure, cost of debt, interest rates or capital expenditures levels.

Situations such as these could result in an impairment that would require a material non-cash charge to our results of operations and could have a material adverse effect on our consolidated results of operations.

Our operations require substantial capital expenditures.

We require significant capital expenditures to maintain, upgrade and enhance our network facilities and operations. While we have historically been able to fund capital expenditures from cash generated from operations and borrowings under our revolving facility, the other risk factors described in this section could materially reduce cash available from operations or significantly increase our capital expenditure requirements, and these outcomes may result in our inability to fund the necessary level of capital expenditures to maintain, upgrade or enhance our network. This could adversely affect our business.

Risks Relating to Our Regulatory Environment

We are subject to significant regulations that could change in a manner adverse to us.

We operate in a heavily regulated industry. Laws and regulations applicable to us and our 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 us:

***Risk of loss or reduction of network access charge revenues*.** A portion of our revenues comes from intrastate and interstate network access charges, which are paid to us by interexchange carriers for originating and terminating telecommunications traffic. In 2012, our revenues also included CAF funding, which is a transitional form of USF support payments associated with the FCC high-cost programs, as more fully described in "Item 1. Business —Regulatory Environment—Overview of FCC Order to Reform Universal Service and Intercarrier Compensation" included elsewhere in this Annual Report. Further, several of the carriers that provide long-distance services have declared bankruptcy in the past. Future declarations of bankruptcy by a carrier that utilizes our access services could negatively affect our business, financial condition, results of operations, liquidity and/or the market price of our outstanding securities.

On November 18, 2011, the FCC released the CAF/ICC Order. In this order, the FCC replaced all existing USF funding for price cap carriers with CAF funding. The amount of CAF funding that will be available to us has not been determined nor have the specific obligations that would be associated with such funding. We risk significant reductions in the amount of CAF funding that will be made available to us compared to our current CAF Phase I frozen support. The specific obligations that will be associated with future CAF funding have not been determined and we risk not being able to accept CAF funding if the obligations exceed the funding. The CAF/ICC Order fundamentally reforms the ICC system that governs how communications companies bill one another for terminating traffic, gradually phasing out these charges. Additional reforms have been proposed. The reforms adopted by the FCC in its order will significantly change 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. Regulatory developments of this type could materially adversely affect our business, financial condition, results of operations, liquidity and/or the market price of our outstanding securities.

Risk of re-regulation of wholesale network services provided to retail and wholesale customers. Pursuant to forbearance from the regulation of high-speed interstate services that was deemed granted to Verizon in 2006 and transferred to FairPoint by the FCC in its order approving the Merger, we offer high-speed interstate services on a deregulated basis. The FCC has initiated a proceeding to investigate potential changes to the regulation of special access services. Several parties filed petitions in 2011 and 2012 asking the FCC to reverse the 2006 forbearance granted to Verizon. It is not clear what actions, if any, the FCC will take in these proceedings. Orders resulting from these proceedings could adversely affect pricing and regulation of these services.

The FCC also is considering changes to its rules governing who contributes to the USF support mechanisms and on what basis. Any changes in the FCC's rules governing the manner in which entities contribute to the USF could have a material adverse effect on our business, financial condition, results of operations, liquidity and/or the market price of our outstanding securities.

***Risk of loss of statutory exemption from burdensome interconnection rules imposed on ILECs*.** Our rural LECs generally are exempt from the more burdensome requirements of the 1996 Act governing the rights of competitors to interconnect to ILEC 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 our rural LECs, we may be required to provide UNEs to competitors in our rural telephone company areas. As a result, more competitors could enter our traditional telephone markets than are currently expected, which could have a material adverse effect on our business, financial condition, results of operations, liquidity and/or the market price of our outstanding securities.

***Risks posed by costs of regulatory compliance*.** Regulations create significant compliance and administrative costs for us. Our subsidiaries that provide intrastate services are generally subject to certification, tariff filing and other ongoing regulatory requirements by state regulators. Our interstate and intrastate access services are currently provided in accordance with tariffs filed with the FCC and state regulatory authorities, respectively. Challenges in the future to our tariffs by regulators or third parties or delays in obtaining certifications and regulatory approvals could cause us to incur substantial legal and administrative expenses, and, if successful, these challenges could adversely affect the rates that we are able to charge our customers, which could have a material adverse effect on our business, financial condition, results of operations, liquidity and/or the market price of our outstanding securities.

In addition, our non-rural operations are subject to regulations not applicable to our rural operations, including but not limited to, requirements relating to interconnection, the provision of UNEs, and the other market-opening obligations set forth in the 1996 Act. In approving the transfer of authorizations to us in the Merger, the FCC determined that our non-rural operations would be subject to the same regulatory requirements that currently apply to Bell Operating Companies. The FCC also stated that we would be entitled to the same regulatory relief that Verizon New England had obtained in the region. Any changes made in connection with these obligations could increase our non-rural operations' costs or otherwise have a material adverse effect on our business, financial condition, results of operations, liquidity and/or the market price of our outstanding securities. Moreover, we cannot predict the precise manner in which the FCC will apply the Bell Operating Company regulatory framework to us.

Our business also may be affected by legislation and regulation imposing new or greater obligations related to open Internet access, assisting law enforcement, bolstering homeland security, pole attachments, minimizing environmental impacts, protecting customer privacy or addressing other issues that affect our business. We cannot predict whether or to what extent the FCC might modify its rules or what compliance with those new rules might cost. Similarly, we cannot predict whether or to what extent federal or state legislators or regulators might impose new network access, security, environmental or other obligations on our business.

***Risk of losses from rate reduction*.** Our LECs that operate pursuant to intrastate rate-of-return regulation are subject to state regulatory authority over intrastate telecommunications service rates. State review of these rates could lead to rate reductions, which in turn could have a material adverse effect on our business, financial condition, results of operations, liquidity and/or the market price of our outstanding securities.

For a more thorough discussion of the regulatory issues that may affect our business, *see* "Item 1. Business—Regulatory Environment" included elsewhere in this Annual Report.

ITEM 1B. UNRESOLVED STAFF COMMENTS

Not applicable.

ITEM 2. PROPERTIES

We own or lease all of the properties material to our business. Our headquarters is located in Charlotte, North Carolina, in a leased facility. We also have administrative offices, maintenance facilities, rolling stock, central office and remote switching platforms, and transport and distribution network facilities in each of the 17 states (after the 2013 sale of our operations in Idaho) in which we operate our LECs. Our administrative and maintenance facilities are generally located in or near the communities served by our LECs and our central offices are often within the administrative building. Auxiliary battery or other non-utility power sources are located at each central office to provide uninterrupted service in the event of an electrical power failure. Transport and distribution network facilities include fiber optic backbone and copper wire distribution facilities, which connect customers to remote switch locations or to the central office and to points of presence or interconnection with the long distance carriers. These facilities are located on land pursuant to permits, easements or other agreements. Our rolling stock includes service vehicles, construction equipment and other required maintenance equipment.

We believe each of our respective properties is suitable and adequate for the business conducted thereon, is being appropriately used consistent with past practice and has sufficient capacity for the present intended purposes.

ITEM 3. LEGAL PROCEEDINGS

From time to time, we are involved in litigation and regulatory proceedings arising out of our operations. Management believes that we are not currently a party to any legal or regulatory proceedings, the adverse outcome of which, individually or in the aggregate, would have a material adverse effect on our business, financial position or results of operations. Notwithstanding that we emerged from Chapter 11 protection on the Effective Date, one of the Chapter 11 Cases is still in the process of being resolved. On November 7, 2012, the Bankruptcy Court entered a final decree closing four Chapter 11 Cases due to such cases being fully administered.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

General Market Information, Holders and Dividends

Our Common Stock is listed on the NASDAQ under the symbol "FRP". Prior to January 25, 2011, the common stock of the Predecessor Company traded (i) on the Pink Sheets under the symbol "FRCMQ" from October 26, 2009 to January 24, 2011 and (ii) on the New York Stock Exchange under the symbol "FRP" from our initial public offering on February 4, 2005 until October 23, 2009. All of this common stock was extinguished in accordance with the Plan on the Effective Date. Our existing Common Stock began trading on the NASDAQ on January 25, 2011.

The following table sets forth, for the periods indicated, the high and low sales prices per share of our Common Stock as reported on the NASDAQ. The stock price information is based on published financial sources.

Year Ended December 31, 2012	High	Low
First quarter	$ 5.15	$ 3.58
Second quarter	6.50	3.66
Third quarter	8.20	5.25
Fourth quarter	8.15	6.80

Year Ended December 31, 2011	High	Low
First quarter (January 25, 2011 through March 31, 2011)	$ 25.50	$ 16.00
Second quarter	17.50	8.74
Third quarter	9.86	4.06
Fourth quarter	6.43	3.13

No dividends were declared on any class of our Common Stock during the fiscal years 2012 or 2011. We currently do not anticipate that we will pay any cash dividends on shares of our Common Stock for the foreseeable future. Any determination to pay dividends in the future will be at the discretion of our board of directors and will depend upon limitations imposed by results of operations, financial condition, contractual restrictions relating to indebtedness, restrictions imposed by applicable law and other factors our board of directors may deem relevant at the time.

As of February 28, 2013, there were approximately 191 holders of record of our Common Stock.

Performance Graph

Set forth below is a line graph comparing the cumulative total stockholder return on shares of our Common Stock against (i) the cumulative total return of all companies listed on the S&P 500 and (ii) the cumulative total return of the S&P 500 Telecom sector. The period compared commences on January 25, 2011, the date our Common Stock began trading on the NASDAQ after we emerged from Chapter 11 bankruptcy protection and ends on December 31, 2012. Because the value of the common stock of the Predecessor Company bears no relation to the value of our existing Common Stock, the graph below reflects only our existing Common Stock. This graph assumes that $100 was invested on January 25, 2011 in our Common Stock and in each of the market index and the sector index at the closing price for FairPoint Communications and the respective indices, and that all cash distributions were reinvested.

Comparison of Cumulative Total Return Among
FairPoint Communications, Inc., S&P 500 and S&P 500 Telecom

Securities Authorized for Issuance under Equity Compensation Plans

The table below provides information, as of the end of the most recently completed fiscal year, concerning securities authorized for issuance under our equity compensation plans. As of December 31, 2012, the FairPoint Communications, Inc. 2010 Long Term Incentive Plan (the "Long Term Incentive Plan") was the only equity compensation plan under which securities of FairPoint Communications were authorized for issuance. The Long Term Incentive Plan was approved by the Bankruptcy Court in connection with the emergence from bankruptcy. For a description of the material features of the Long Term Incentive Plan, *see* note (14) "Stock-Based Compensation" to our consolidated financial statements in "Item 8. Financial Statements and Supplementary Data" included elsewhere in this Annual Report.

Equity Compensation Plan Information

Plan Category	(a) Number of securities to be issued upon exercise of outstanding options, warrants and rights [1]		(b) Weighted average exercise price of outstanding options, warrants and rights	(c) Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) [2]
Equity compensation plans approved by our stockholders	—		N/A	—
Equity compensation plans not approved by our stockholders	1,129,829	$	18.95	1,438,169
Total	**1,129,829**	**$**	**18.95**	**1,438,169**

(1) Includes 1,129,829 options to purchase shares of Common Stock under the Long Term Incentive Plan.

(2) Per the Long Term Incentive Plan, if the consolidated enterprise value of the Company (as defined in the Long Term Incentive Plan) does not equal or exceed $2.3 billion on or prior to the expiration of the Warrants, then the aggregate number of shares of Common Stock available for issuance pursuant to future awards will be automatically reduced by 310,326 shares.

Repurchase of Equity Securities

We did not repurchase any equity securities during the three months ended December 31, 2012.

Unregistered Sales of Equity Securities

During the quarter ended December 31, 2012, pursuant to the Plan, the Company issued (i) 47,584 shares of Common Stock in the aggregate to holders of allowed unsecured claims against FairPoint Communications (the "FairPoint Communications Unsecured Claims") under the Plan and (ii) Warrants to purchase an aggregate of 116,801 shares of Common Stock, subject to adjustment upon the occurrence of certain events described in the Warrant Agreement to holders of FairPoint Communications Unsecured Claims under the Plan.

Based on the Order Confirming Debtors' Third Amended Joint Plan of Reorganization Under Chapter 11 of the Bankruptcy Code dated as of December 29, 2010 (the "Confirmation Order"), the Company relied on Section 1145(a)(1) of the Bankruptcy Code to issue the new securities described above.

ITEM 6. SELECTED FINANCIAL DATA

On March 31, 2008, we completed the acquisition of Spinco, pursuant to which Spinco merged with and into FairPoint, with FairPoint continuing as the surviving corporation for legal purposes. Spinco was a wholly-owned subsidiary of Verizon and prior to the Merger the Verizon Group transferred certain specified assets and liabilities of the local exchange businesses of Verizon New England in Maine, New Hampshire and Vermont and the customers of the related voice and Internet service provider businesses in those states to subsidiaries of Spinco. The Merger was accounted for as a "reverse acquisition" of FairPoint by Spinco under the purchase method of accounting because Verizon stockholders owned a majority of the shares of the consolidated Company following the Merger and, therefore, Spinco is treated as the acquirer for accounting purposes. The following financial information reflects the transaction as if Spinco had issued consideration to FairPoint's stockholders. As a result, for the year ended December 31, 2008, financial information derived from the statement of operations and statement of cash flows reflects the consolidated financial results of the Company by including the financial results of the Verizon Northern New England business for the three months ended March 31, 2008 and the financial results of FairPoint for the nine months ended December 31, 2008.

As of the Effective Date, we adopted fresh start accounting in accordance with guidance under the applicable reorganization accounting rules, pursuant to which our reorganization value was allocated to our assets in conformity with guidance under the applicable accounting rules for business combinations, using the purchase method of accounting for business combinations. In addition to fresh start accounting, our consolidated financial statements reflect all effects of the transactions contemplated by the Plan. Therefore, our consolidated statements of financial position and consolidated statements of operations subsequent to the Effective Date are not comparable in many respects to our consolidated statements of financial position and consolidated statements of operations for periods prior to the Effective Date. For more information regarding fresh start accounting, *see* note (4) "Reorganization Under Chapter 11" to our consolidated financial statements in "Item 8. Financial Statements and Supplementary Data" included elsewhere in this Annual Report.

The summary financial data presented below represents portions of our consolidated financial statements and are not complete. The following financial information should be read in conjunction with "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations" and our consolidated financial statements and notes thereto contained in "Item 8. Financial Statements and Supplementary Data" included elsewhere in this Annual Report. Historical results are not necessarily indicative of future performance or results of operations. Amounts are in thousands, except access lines, per share data and units.

	Year Ended December 31, 2012	Three Hundred Forty-One Days Ended December 31, 2011	Predecessor Company: Twenty-Four Days Ended January 24, 2011	Predecessor Company: Year Ended December 31, 2010	2009	2008 [8]
Results of Operations:						
Revenues	$ 973,649	$ 963,112	$ 66,378	$ 1,070,986	$ 1,119,090	$ 1,274,619
Operating expenses, excluding impairment on intangible assets and goodwill	1,155,632	1,107,298	87,442	1,180,925	1,208,240	1,216,206
Impairment of intangible assets and goodwill	—	262,019	—	—	—	—
(Loss) income from operations	(181,983)	(406,205)	(21,064)	(109,939)	(89,150)	58,413
Interest expense [1]	67,610	63,807	9,321	140,896	204,919	162,040
Gain (loss) on derivative instruments	—	—	—	—	12,320	(11,800)
Gain on early retirement of debt	—	—	—	—	12,357	—
Reorganization items income (expense) [2]	—	—	897,313	(41,120)	(53,018)	—
Net (loss) income	$ (153,294)	$ (414,945)	$ 586,907	$ (281,579)	$ (241,396)	$ (68,525)
(Loss) earnings per share:						
Basic	$ (5.90)	$ (16.06)	$ 6.56	$ (3.15)	$ (2.70)	$ (0.85)
Diluted	$ (5.90)	$ (16.06)	$ 6.54	$ (3.15)	$ (2.70)	$ (0.85)
Cash dividends per share	$ —	$ —	$ —	$ —	$ 0.2575	$ 0.773
Weighted average shares outstanding:						
Basic	25,987	25,838	89,424	89,424	89,271	80,443
Diluted	25,987	25,838	89,695	89,424	89,271	80,443
Financial Position (at period end) [3]:						
Cash, excluding restricted cash [4]	$ 23,203	$ 17,350	$ 10,262	$ 105,497	$ 109,355	$ 70,325
Total assets	1,732,361	1,985,671	2,516,871	2,973,794	3,172,122	3,335,940
Total long-term debt [5]	957,000	1,000,000	1,000,000	2,520,959	2,515,446	2,470,253
Total stockholders' (deficit) equity	(317,813)	(106,143)	498,486	(587,418)	(218,427)	23,786
Operating Data (at period end):						
Access line equivalents [6]	1,278,434	1,346,894	N/A	1,417,290	1,545,976	1,721,709
Residential access lines	586,725	645,453	N/A	712,591	802,668	926,610
Business access lines	299,701	311,241	N/A	327,812	357,605	392,496
Wholesale access lines [7]	65,641	76,065	N/A	87,142	97,161	107,243
Broadband subscribers	326,367	314,135	N/A	289,745	288,542	295,360
Summary of Cash Flows:						
Net cash provided by (used in) operating activities	$ 192,775	$ 170,099	$ (81,091)	$ 191,626	$ 150,323	$ 57,505
Net cash used in investing activities	(144,307)	(162,850)	(12,477)	(197,268)	(177,391)	(283,332)
Net cash (used in) provided by financing activities	(42,615)	(161)	(1,667)	1,784	66,098	296,152
Capital expenditures	145,066	163,648	12,477	197,795	178,752	296,992

(1) Upon the October 26, 2009 filing of the Chapter 11 Cases and through the Effective Date, in accordance with guidance under the applicable reorganization accounting rules, we ceased to accrue interest expense on the Pre-Petition Notes and our interest rate swap agreements as it was unlikely that such interest expense would be paid or would become an allowed priority secured or unsecured claim. We continued to accrue interest expense on the Pre-Petition Credit Facility, as such interest was considered an allowed claim pursuant to the Plan. All pre-petition debt was terminated on the Effective Date. *See* "Item 7. Management's Discussion and Analysis—Liquidity and Capital Resources—Debt" included elsewhere in this Annual Report for further information on our pre-petition debt. We have accrued interest in normal course subsequent to the Effective Date.

(2) Reorganization items represent income or expense amounts that have been recognized as a direct result of the Chapter 11 Cases, prior to the Effective Date. On January 24, 2011, we emerged from Chapter 11 protection and substantially

consummated our reorganization through a series of transactions contemplated by the Plan. Reorganization items income during the 24 days ended January 24, 2011 includes adjustments made upon application of the Plan and adoption of fresh start accounting, in addition to certain other items, more fully described in note (4) "Reorganization Under Chapter 11" to our consolidated financial statements in "Item 8. Financial Statements and Supplementary Data" included elsewhere in this Annual Report.

(3) The balance sheet data reflected at January 24, 2011 is representative of the Company after application of the Plan and the adoption of fresh start accounting.

(4) Cash excludes aggregate restricted cash of $7.5 million, $25.1 million, $4.1 million, $4.0 million and $68.5 million at December 31, 2012, 2011, 2010, 2009 and 2008, respectively, and $86.8 million at January 24, 2011.

(5) Long-term debt at December 31, 2010 and 2009 is included in Liabilities subject to compromise in our consolidated balance sheets.

(6) Total access line equivalents include voice access lines and broadband subscribers, which include DSL, wireless broadband, cable modem and fiber-to-the-premises.

(7) Wholesale access lines include residential and business resale lines and unbundled network element platform ("UNEP") lines.

(8) Prior to the Merger, financial statements were not prepared for the Verizon Northern New England business, as it was not operated as a separate business. The Verizon Northern New England business financial statements for all periods prior to March 31, 2008 have been prepared in accordance with accounting principles generally accepted in the United States ("U.S. GAAP") using specific information where available and allocations where data was not maintained on a state-specific basis within the Verizon Northern New England business' books and records. We believe the allocations used to determine selected amounts in the financial statements are appropriate methods to reasonably reflect the related assets, liabilities, revenues and expenses of the Verizon Northern New England business for periods prior to the Merger.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion should be read in conjunction with our consolidated financial statements and the notes thereto in "Item 8. Financial Statements and Supplementary Data" included elsewhere in this Annual Report. The following discussion includes certain forward-looking statements. For a discussion of important factors, including the continuing development of our business, actions of regulatory authorities and competitors and other factors which could cause actual results to differ materially from the results referred to in the forward-looking statements, *see* "Item 1A. Risk Factors" included elsewhere in this Annual Report.

Overview

We are a leading provider of advanced communications services to business, wholesale and residential customers within our service territories. We offer our customers a suite of advanced data services such as Ethernet, high capacity data transport and other IP-based services over our Next Generation Network in addition to Internet access, HSD, and local and long distance voice services. Our service territory spans 17 states (after the 2013 sale of our operations in Idaho, which closed on January 31, 2013) where we are the incumbent communications provider primarily serving rural communities and small urban markets. Many of our LECs have served their respective communities for more than 80 years. We operate with approximately 1.3 million access line equivalents, including approximately 326 thousand broadband subscribers, in service as of December 31, 2012.

We own and operate our Next Generation Network, a ubiquitous, next-generation fiber network with more than 15,000 route miles in the northern New England states of Maine, New Hampshire and Vermont giving us capacity to support more HSD services and extend our fiber reach into more communities across the region. The IP/MPLS network architecture of our Next Generation Network allows us to provide Ethernet, transport and other IP-based services with the highest level of reliability at a lower cost of service. This fiber network also supplies critical infrastructure for wireless providers serving the region as their bandwidth needs increase, driven by mobile data from smartphones, tablets and other wireless devices. As of December 31, 2012, we provide cellular transport, also known as backhaul, through approximately 900 mobile Ethernet backhaul connections. We have fiber connectivity to more than 900 towers in our service footprint.

Executive Summary

Our executive management team is focused on our 'four pillar' strategy of improving operations, changing the regulatory environment, transforming and growing revenue and aligning our human resources. Our mission is to provide reliable communications services with outstanding customer support across the 17 states (after the 2013 sale of our operations in Idaho) we serve.

During fiscal year 2012, we continued to make substantial progress on our 'four pillar' business strategy to continue our transformation from a traditional telephone company into a provider of advanced communications services. Key strategic activities that occurred this fiscal year included:

- *Improving Operations.* We have made significant operational improvements to drive improved subscriber metrics, such as increases in broadband subscribers and slower attrition in voice access line losses. We continued to see a steady improvement in our ability to attract and retain business customers, which contributed to an improvement in the rate of business voice access line loss in the year ended December 31, 2012. The rate of loss in business voice access lines, which was 3.7% for the year ended December 31, 2012 is significantly reduced from the 5.1% rate of loss that we experienced for the year ended December 31, 2011. In addition, voice access line loss slowed for the tenth consecutive quarter as of the third quarter of 2012 and stayed steady in the fourth quarter of 2012, reaching 7.8% for the year ended December 31, 2012. We have also made meaningful improvements in service quality as measured by material reductions in repair calls and trouble reports. In addition, we have implemented a disciplined approach to capital expenditures to optimize returns through rigorous analysis and planning. This disciplined approach has resulted in material capital expenditures in our core network which allow us significant flexibility to expand our broadband service offerings in a cost-efficient manner while maintaining our reputation for high quality customer service. These types of improvements over the course of the fiscal year have generated a significant sum of cash which allowed us to make a total of $33.0 million in voluntary repayments in addition to the $10.0 million in scheduled repayments on the Old Term Loan in 2012. As a result, the amount outstanding under the Old Term Loan at December 31, 2012 was down to $957.0 million from $1.0 billion at January 1, 2012.

- *Changing the Regulatory Environment.* We believe that there should be a level regulatory "playing field" so all competitors can fairly compete for business. As such, we have been successful in highlighting the disparities in the regulatory mechanisms in Maine, New Hampshire and Vermont. Our retail service rates have been substantially deregulated both in terms of price and quality of service in Maine, New Hampshire and Vermont as a result of deregulation that went into full effect during the third quarter of 2012. As a result, we expect our Northern New England operations will be able to compete on a more level playing field and further expect a dramatic reduction in SQI penalty exposure for the business going forward.

- *Transforming and Growing our Revenue Composition.* Our plan has been to add advanced data products and services such as Ethernet, high capacity data transport and other IP-based services over our Next Generation Network in addition to HSD services to minimize our dependence on voice access lines. We have invested and expect to continue to invest in our broadband network to extend its reach and capacity to customers who did not previously have access to such products and to offer more competitive services to existing customers. We also continue to expand our product suite of IP-based services. These investments have paid off as we continue to see positive momentum in our growth-oriented business and broadband products. Data and Internet services revenue grew 12% in 2012 over 2011 and products like our retail Ethernet service offerings continue to attract new customers. Retail Ethernet services contributed $18.8 million of revenue during the year ended December 31, 2012 as compared to $10.1 million for the year ended December 31, 2011. Broadband subscribers grew by more than 12,000 subscribers, or 3.9%, for the year ended December 31, 2012 as penetration reached 34.3% of voice access lines at December 31, 2012. During the second quarter of 2012, we initiated a program of instilling greater discipline into our sales organization. Sales bookings have improved whereby fourth quarter 2012 bookings were 19% higher than the first quarter 2012.

- *Aligning our Human Resources.* We are seeking to improve productivity. As we improved our operations, we began initiatives to reduce our workforce in 2011 to a level that is appropriate for customer service while prudently managing expenses. In 2012, we worked to consolidate operational functions and realign our human resources with the changing telecommunications landscape. As of December 31, 2012, we have reduced our staff levels to 3,369 employees, a decrease of 4.9% and 16.4% from December 31, 2011 and 2010, respectively.

February 2013 Refinancing

On the Refinancing Closing Date, we completed the Refinancing of the Old Credit Agreement Loans. In connection with the Refinancing, we (i) issued $300.0 million aggregate principal amount of the Notes in a private offering exempt from registration under the Securities Act pursuant to the Indenture that we entered into on the Refinancing Closing Date and (ii) entered into the New Credit Agreement, dated as of the Refinancing Closing Date. The New Credit Agreement provides for the $75.0 million New Revolving Facility and the $640.0 million New Term Loan. On the Refinancing Closing Date, we used the proceeds of the Notes offering, together with $640.0 million of borrowings under the New Term Loan and cash on hand to (i) repay principal of $946.5 million outstanding on the Old Term Loan, plus an additional approximately $7.7 million of accrued interest and (ii) pay approximately $33.0 million of fees, expenses and other costs relating to the Refinancing. For further information regarding the New Credit Agreement, the Notes and our repayment of the Old Credit Agreement Loans, *see* "—Liquidity and Capital Resources" herein and note (20) "Subsequent Events" to our consolidated financial statements in "Item 8. Financial Statements and Supplementary Data" included elsewhere in this Annual Report.

Regulatory and Legislative

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

For a detailed description of the federal and state regulatory environment in which we operate and the FCC's recently promulgated CAF/ICC Order and other recent regulatory changes, as well as the effects and potential effects of such regulation on us, *see* "Item 1. Business—Regulatory Environment" included elsewhere in this Annual Report. We anticipate that the significant changes in both federal and state regulation described therein will not have a material impact in 2012. However, in the long run, we are uncertain of the ultimate impact as federal and state regulation continues to evolve.

Fresh Start Accounting

On October 26, 2009, we filed the Chapter 11 Cases. On January 13, 2011, the Bankruptcy Court entered the Confirmation Order, which confirmed the Plan.

On January 24, 2011, the Effective Date, we substantially consummated our reorganization through a series of transactions contemplated by the Plan and the Plan became effective pursuant to its terms.

As of the Effective Date, we were required to adopt fresh start accounting in accordance with guidance under the applicable reorganization accounting rules, pursuant to which our reorganization value, which represents the fair value of an entity before considering liabilities and approximates the amount a willing buyer would pay for the assets of the entity immediately after the reorganization, was allocated to the fair value of assets in conformity with guidance under the applicable accounting rules for business combinations, using the purchase method of accounting for business combinations. The amount remaining after allocation of the reorganization value to the fair value of identified tangible and intangible assets was reflected as goodwill, which was subject to periodic evaluation for impairment and was later determined to be completely impaired at September 30, 2011. In addition to fresh start accounting, our consolidated financial statements after the Effective Date reflect all effects of the transactions contemplated by the Plan. Therefore, our consolidated statements of financial position and consolidated statements of operations subsequent to the Effective Date are not comparable in many respects to our consolidated statements of financial position and consolidated statements of operations for periods prior to the Effective Date.

Basis of Presentation

We view our business of providing data, voice and communication services to business, wholesale and residential customers as one reportable segment as defined in the Segment Reporting Topic of the Accounting Standards Codification ("ASC").

Beginning in the second quarter of 2012, we reclassified certain revenues from voice services revenues to data and Internet services revenues to more accurately reflect the underlying service provided. For comparative purposes, we have reclassified the prior periods to be consistent with the current period presentation.

Results of Operations

The following table sets forth our consolidated operating results reflected in our consolidated statements of operations. We believe the comparison of combined results of the year ended December 31, 2011 versus the years ended December 31, 2012 and 2010, respectively, provides the best analysis of our results of operations. While the adoption of fresh start accounting presents the results of operations of a new reporting entity, the only consolidated statement of operations items impacted by the reorganization under Chapter 11 are depreciation expense, interest expense and reorganization items. Those effects of fresh start accounting are discussed in more detail in the respective sections below.

The year-to-year comparisons of financial results are not necessarily indicative of future results (in thousands, except for access lines):

		Combined		Predecessor Company	
	Year Ended December 31, 2012	Year Ended December 31, 2011	Three Hundred Forty-One Days Ended December 31, 2011	Twenty-Four Days Ended January 24, 2011	Year Ended December 31, 2010
Revenues:					
Voice services	$ 446,126	$ 483,766	$ 451,212	$ 32,554	$ 530,147
Access	336,000	369,336	346,313	23,023	381,089
Data and Internet services	142,911	127,323	119,363	7,960	111,699
Other	48,612	49,065	46,224	2,841	48,051
Total revenues	**973,649**	**1,029,490**	**963,112**	**66,378**	**1,070,986**
Operating expenses:					
Cost of services and sales, excluding depreciation and amortization	440,271	477,385	438,619	38,766	525,728
Selling, general and administrative expense, excluding depreciation and amortization	342,413	359,181	332,020	27,161	365,373
Depreciation and amortization	376,614	358,406	336,891	21,515	289,824
Reorganization related income	(3,666)	(232)	(232)	—	—
Impairment of intangible assets and goodwill	—	262,019	262,019	—	—
Total operating expenses	**1,155,632**	**1,456,759**	**1,369,317**	**87,442**	**1,180,925**
Loss from operations	**(181,983)**	**(427,269)**	**(406,205)**	**(21,064)**	**(109,939)**
Other income (expense):					
Interest expense	(67,610)	(73,128)	(63,807)	(9,321)	(140,896)
Other	739	1,659	1,791	(132)	2,715
Total other expense	(66,871)	(71,469)	(62,016)	(9,453)	(138,181)
Loss before reorganization items and income taxes	**(248,854)**	**(498,738)**	**(468,221)**	**(30,517)**	**(248,120)**
Reorganization items	—	897,313	—	897,313	(41,120)
(Loss) income before income taxes	**(248,854)**	**398,575**	**(468,221)**	**866,796**	**(289,240)**
Income tax benefit (expense)	95,560	(226,613)	53,276	(279,889)	7,661
Net (loss) income	**$ (153,294)**	**$ 171,962**	**$ (414,945)**	**$ 586,907**	**$ (281,579)**
Access line equivalents:					
Residential	586,725	645,453			712,591
Business	299,701	311,241			327,812
Wholesale	65,641	76,065			87,142
Total voice access lines	**952,067**	**1,032,759**			**1,127,545**
Broadband subscribers	326,367	314,135			289,745
Total access line equivalents	**1,278,434**	**1,346,894**			**1,417,290**

Voice Services Revenues

We receive revenues through the provision of local calling services to business and residential customers, generally for a fixed monthly charge and service charges for special calling features. We also generate revenue through long distance services within our service areas on our network and through resale agreements with national interexchange carriers. In addition, through our wholly-owned subsidiary, FairPoint Carrier Services, Inc., we provide wholesale long distance services to communications providers that are not affiliated with us. For the years ended December 31, 2012 and 2011, voice access lines in service decreased 7.8% and 8.4%, respectively, which directly impacts local voice services revenues and our opportunity to provide long distance services to our customers, resulting in a decrease of minutes of use. We expect the trend of decline in voice access lines in service, and thereby a decline in aggregate voice services revenues, to continue as customers are turning to the use of alternative communications services as a result of our ever-increasing competition.

We are subject to retail service quality plans in the states of Maine, New Hampshire and Vermont pursuant to which we incur SQI penalties resulting from any failure to meet the requirements of the respective plans. Penalties resulting from these commitments are recorded as a reduction to local voice services revenues and, due to recent deregulation legislature, our maximum exposure to SQI penalties has been or will be reduced. Under the Maine Deregulation Legislation enacted in August 2012, our maximum exposure to annual SQI penalties in Maine was reduced from $12.5 million to $2.0 million beginning with Maine's fiscal year ending July 31, 2013. In New Hampshire, the retail service quality plan was eliminated by SB 48 effective August 10, 2012, thereby extinguishing our exposure to SQI penalties in this state. In addition, effective April 2011, the maximum annual exposure under the Vermont retail service quality plan was reduced from $10.5 million to $1.65 million, and may be eliminated in 2013 if we achieve certain retail service quality metrics.

We adopted a separate performance assurance plan ("PAP") for certain services provided on a wholesale basis to CLECs in each of the states of Maine, New Hampshire and Vermont, pursuant to which we are required to provide performance credits in the event we are unable to meet the provisions of the respective PAP. A majority of penalties and credits resulting from these commitments is recorded as a reduction to local voice services revenues with a small portion recorded to access revenues. Our maximum exposure to penalties under the PAPs has not been reduced by the recent deregulation legislation in Maine and New Hampshire or by the Incentive Regulation Plan adopted in Vermont.

We receive subsidies to supplement the amount of local service revenue received by us to ensure that basic local service rates for customers in high-cost areas are consistent with rates charged in lower cost areas. Prior to 2012, these subsidies were provided through the USF high-cost support program. Beginning in 2012, all forms of support under the USF were replaced with CAF Phase I frozen support. We expect to receive the same level of CAF Phase I frozen support revenue in 2013 until the FCC completes its proceedings to adopt a CAF cost model and develop CAF Phase II for our operating areas. Timing of when these FCC proceedings will be completed or whether we will accept or refuse any funding under the CAF Phase II support programs due to the cost of our obligations associated with the funding is unknown.

The following table reflects the primary drivers of year-over-year changes in voice services revenues (in millions):

	Year Ended December 31, 2012		Year Ended December 31, 2011	
	Increase (Decrease)	**%**	**Increase (Decrease)**	**%**
Local voice services revenues, excluding:	$ (27.8)		$ (43.7)	
(Increase) decrease in accrual of SQI penalties [(1)]	(3.9)		2.7	
(Increase) decrease in accrual of PAP penalties [(2)]	(1.3)		4.8	
High-cost loop funding [(3)]	0.3		(2.3)	
Decrease in high-cost loop credits to customers [(4)]	2.7		3.5	
Long distance services revenues	(7.6)		(11.4)	
Total changes in voice services revenues	**$ (37.6)**	**(8)%**	**$ (46.4)**	**(9)%**

(1) In fiscal year 2009, we recorded significant SQI penalties as a result of our failure to meet certain retail service quality requirements following the transition of certain back-office functions from Verizon's integrated systems to our newly created systems. In February 2010, we entered into the Regulatory Settlements with representatives of New Hampshire and Vermont which, among other things, deferred the final settlement of the 2008 and 2009 SQI penalties in these states, with their payment contingent on our achievement of certain key performance metrics in fiscal year 2010 that, if met, would reduce our 2008 and 2009 penalties. Our 2010 improved performance in New Hampshire and Vermont resulted in an aggregate $13.8 million reversal of our 2008 and 2009 SQI penalties in these states, of which $12.7 million and $1.1 million was recognized in fiscal years 2010 and 2011, respectively. For the year ended December 31, 2010, we recognized $11.7 million of 2010 SQI penalties, which was entirely offset by the reversal of 2008 and 2009 SQI penalties resulting in a net increase to local voice services revenues of $1.0 million. In fiscal year 2011, our continued performance

improvement, certain legislative and regulatory changes and the additional reversal of 2008 and 2009 SQI penalties resulted in a net increase to local voice services revenues of $3.7 million. In fiscal year 2012, SQI penalties resulted in a decrease to local voice services revenues of $0.2 million. For additional information on our SQI penalties, *see* note (19) "Commitments and Contingencies" to our consolidated financial statements in "Item 8. Financial Statements and Supplementary Data" included elsewhere in this Annual Report.

(2) During fiscal years 2012, 2011 and 2010, local voice services revenues were reduced by $2.8 million, $1.5 million and $6.3 million, respectively, as a result of our failure to meet specified performance standards as defined by the provisions of the separate PAPs in Maine, New Hampshire and Vermont. For additional information on our PAP penalties, *see* note (19) "Commitments and Contingencies" to our consolidated financial statements in "Item 8. Financial Statements and Supplementary Data" included elsewhere in this Annual Report.

(3) As described in "Item 1. Business—Regulatory Environment" included elsewhere in this Annual Report, our 2012 CAF Phase I frozen support revenue, which includes high-cost loop funding, was not calculated in the manner in which it was in prior years. Instead, this transitional funding was based upon and equal to all forms of our 2011 USF high-cost support revenue, plus or minus small true-ups recorded during the respective fiscal years. For the years ended December 31, 2012, 2011 and 2010, we recognized $14.1 million, $13.8 million and $16.1 million of high-cost loop funding from the CAF and USF support programs.

(4) In 2012, the VPSB and the MPUC each approved a tariff change whereby we are no longer required to provide high-cost loop credits to customers. For the years ended December 31, 2012, 2011 and 2010, we recognized a reduction to local voice services revenues related to high-cost loop credits remitted to customers of $0.8 million, $3.5 million and $7.0 million, respectively.

Access Revenues

We receive revenues for the provision of network access through carrier Ethernet based products and legacy access products to end user customers and long distance and other competing carriers who use our local exchange facilities to provide usage services to their customers. Network access can be provided to carriers and end users that buy dedicated local and interexchange capacity to support their private networks (i.e. special access) or it can be derived from fixed and usage-based charges paid by carriers for access to our local network (i.e. switched access).

Over the last few years, carriers are migrating from legacy access products, such as DS1, DS3, frame relay, ATM and private line, to carrier Ethernet based products. These carrier Ethernet based products are more sustainable, but generally, at the outset, have lower average revenues per user than the legacy products they are replacing, resulting in a decline in access revenues. We expect the decline in access revenues to continue with customer migration; however, with the increasing need for bandwidth, including cellular backhaul, demand for carrier Ethernet based products is expected to increase over time. Our extensive fiber network with over 15,000 route miles, including over 900 cell towers currently served with fiber, puts us in a position to grow our revenue base as demand for cellular backhaul services emerges. We expect to see demand increase on existing fiber-connected towers where we would provision or expand mobile Ethernet backhaul connections. We will also construct new fiber routes to cell towers when the business case presents itself.

The following table reflects the primary drivers of year-over-year changes in access revenues (in millions):

	Year Ended December 31, 2012		Year Ended December 31, 2011	
	Increase (Decrease)	%	Increase (Decrease)	%
Carrier Ethernet services [1]	$ 17.2		$ 5.2	
Legacy access services	(50.5)		(17.0)	
Total changes in access revenues	**$ (33.3)**	**(9)%**	**$ (11.8)**	**(3)%**

(1) We offer carrier Ethernet services throughout our market to our business and wholesale customers, which include Ethernet virtual circuit technology for cellular backhaul. As of December 31, 2012, we provide cellular transport through approximately 900 mobile Ethernet backhaul connections on our Next Generation Network. Our provision of mobile Ethernet backhaul connections on the Next Generation Network has grown significantly over the last two years.

Data and Internet Services Revenues

We receive revenues from monthly recurring charges for the provision of data and Internet services to residential and business customers through DSL technology, fiber-to-the-home technology, retail Ethernet, dedicated T-1 connections, Internet dial-up, high speed cable modem and wireless broadband.

Over the last few years, we have invested in our broadband network to extend the reach and capacity of the network to customers who did not previously have access to data and Internet products and to offer more competitive services to existing customers, including retail Ethernet products. During the years ended December 31, 2012 and 2011, we grew broadband subscribers by 3.9% and 8.4%, respectively, and added more than 12,000 and 24,000 subscribers, respectively, as penetration reached 34.3% of voice access lines at December 31, 2012 from 30.4% and 25.7% at December 31, 2011 and 2010, respectively. We expect to continue our investment in our broadband network to further grow data and Internet services revenues in the coming years.

The following table reflects the primary drivers of year-over-year changes in data and Internet services revenues (in millions):

	Year Ended December 31, 2012		Year Ended December 31, 2011	
	Increase (Decrease)	%	Increase (Decrease)	%
Retail Ethernet services [(1)]	$ 8.7		$ 8.6	
Other data and Internet technology based services	6.9		7.0	
Total changes in data and Internet revenues	**$ 15.6**	**12%**	**$ 15.6**	**14%**

(1) Retail Ethernet services revenue is comprised of data services provided through E-LAN, E-LINE and E-DIA technology on our Next Generation Network. In the years ended December 31, 2012, 2011 and 2010, respectively, we recognized $18.8 million, $10.1 million and $1.5 million of retail Ethernet revenues from our Next Generation Network.

Other Services Revenues

We receive revenues from other services, including special purpose projects on behalf of third party requests, video services (including cable television and video-over-DSL), billing and collection, directory services, the sale and maintenance of customer premise equipment and certain other miscellaneous revenues. Other services revenues also include revenue we receive from late payment charges to end users and interexchange carriers. Due to the composition of other services revenues, it is difficult to predict future trends.

The following table reflects the primary drivers of year-over-year changes in other services revenues (in millions):

	Year Ended December 31, 2012		Year Ended December 31, 2011	
	Increase (Decrease)	%	Increase (Decrease)	%
Special purpose projects [(1)]	$ 1.4		$ (0.2)	
Late payment fees [(2)]	1.0		1.8	
Other [(3)]	(2.9)		(0.6)	
Total changes in other services revenues	**$ (0.5)**	**(1)%**	**$ 1.0**	**2%**

(1) Special purpose projects are completed on behalf of third party requests. The level of future special purpose project revenues fluctuates and cannot be predicted.

(2) In late 2011, we began billing in our Northern New England operations for late payment fees to customers who have not paid their bills in a timely manner.

(3) Other revenues were primarily attributable to decreases in directory services, decreases in billing and collections and fluctuations in various other miscellaneous services revenues.

Cost of Services and Sales

Cost of services and sales includes the following costs directly attributable to a service or product: salaries and wages, benefits (including stock based compensation), materials and supplies, contracted services, network access and transport costs, customer provisioning costs, computer systems support and cost of products sold. Aggregate customer care costs, which include billing and service provisioning, are allocated between cost of services and sales and selling, general and administrative expenses. We expect cost of services and sales to decrease as voice access lines decline and we continue to make operational improvements and align our human resources with the changing telecommunications landscape.

The following table reflects the primary drivers of year-over-year changes in cost of services and sales (in millions):

	Year Ended December 31, 2012			Year Ended December 31, 2011		
		Increase (Decrease)	%		Increase (Decrease)	%
Access expense (1)	$	(14.0)		$	(9.6)	
Abandonment of projects (2)		2.9			(15.1)	
Non-recurring expenses (3)		—			(13.3)	
Deferred charges related to activation fees (4)		0.3			(7.8)	
Employee expense (5)		(13.0)			(5.2)	
Severance expense (6)		(4.2)			6.6	
Other		(9.1)			(3.9)	
Total changes in cost of services and sales	**$**	**(37.1)**	**(8)%**	**$**	**(48.3)**	**(9)%**

(1) Decreases in 2012 and 2011 access expense are primarily attributable to increased usage of our VoIP infrastructure, which has enabled us to significantly reduce the associated costs of utilizing other carriers.

(2) In the fiscal year 2010, we recognized $15.1 million associated with the abandonment of certain capital projects, principally related to wireless broadband and fiber-to-the-premise services. No abandonment of capital projects was recognized in the fiscal year 2011. During the fiscal year 2012, we recognized $2.9 million associated with the abandonment of certain capital projects, primarily a management reporting package project and commissioning system project.

(3) In the fiscal year 2010, we recognized $13.3 million of non-recurring expenses primarily associated with our correction of costs capitalized to property, plant and equipment and the application of overhead costs.

(4) As a result of fresh start accounting, we wrote off all deferred charges that had been deferred in prior periods and were being amortized into expense over an average customer life. After fresh start, we began to defer any new expenses incurred associated with customer activation fees. Prior to the Effective Date, the amortization of expense each year was greater than the deferral (resulting in a net increase in expense), whereas after fresh start the deferral is greater than the amortization (resulting in a net decrease in expense). In the years ended December 31, 2012 and 2011, we recognized a net decrease to expense of $1.0 million and $1.3 million, respectively, whereas in the year ended December 31, 2010, we recognized a net increase to expense of $6.5 million.

(5) On September 8, 2011, we announced plans to reduce our workforce to better ensure that we are staffed appropriately to serve our customers, while prudently managing expenses. The reduction eliminated approximately 400 positions, many of which impacted cost of services and sales, beginning in September 2011 and continuing through the end of 2011, resulting in a decrease in employee expense for the fiscal year 2012. In addition, we capitalize the use of internal labor resources on capital projects, which is a reduction to employee expenses. During each of the fiscal years 2012 and 2011, our labor intensive capital projects decreased from the previous year resulting in an increase to 2012 and 2011 employee expense as our internal workforce focused their efforts on other operating projects. For the years ended December 31, 2012, 2011 and 2010, we recognized $187.1 million, $200.1 million and $205.3 million of employee expense, respectively.

(6) As previously mentioned, our 2011 workforce reduction eliminated approximately 400 positions, many of which impacted cost of services and sales, beginning in September 2011, and continuing through the end of 2011 resulting in an increase in severance expense for the fiscal year 2011. For the years ended December 31, 2012, 2011 and 2010, we recognized $2.5 million, $6.7 million and $0.1 million of severance expense, respectively.

Selling, General and Administrative Expense

Selling, general and administrative ("SG&A") expense includes salaries and wages and benefits (including stock based compensation) not directly attributable to a service or product, bad debt charges, taxes other than income, advertising and sales commission costs, customer billing, call center and information technology costs, professional service fees and rent for administrative space. We expect our SG&A expense to increase primarily as a result of our increasing qualified pension and post-retirement healthcare obligations.

The following table reflects the primary drivers of year-over-year changes in SG&A expense (in millions):

	Year Ended December 31, 2012			Year Ended December 31, 2011		
		Increase (Decrease)	%		Increase (Decrease)	%
Post-retirement healthcare expense (1)	$	11.3		$	5.0	
Pension expense (2)		5.6			2.2	
Bad debt expense (3)		(14.3)			1.3	
Employee expense (4)		(11.4)			4.4	
Severance expense (5)		2.6			0.2	
Other (6)		(10.6)			(19.3)	
Total changes in SG&A expense	**$**	**(16.8)**	**(5)%**	**$**	**(6.2)**	**(2)%**

(1) Increases in 2012 and 2011 post-retirement healthcare net periodic benefit cost are primarily attributable to declines in the discount rates from 5.65% at December 31, 2010 to 4.66% at December 31, 2011 to 4.20% at December 31, 2012. A portion of our post-retirement healthcare net periodic benefit cost is capitalized to property, plant and equipment upon the use of internal labor for capital projects. Excluding the capitalized net periodic benefit cost, for the years ended December 31, 2012, 2011 and 2010, we recognized $50.9 million, $39.6 million and $34.6 million of post-retirement healthcare expense, respectively. *See* note (9) "Employee Benefit Plans" to our consolidated financial statements in "Item 8. Financial Statements and Supplementary Data" included elsewhere in this Annual Report for further information on our post-retirement healthcare plans.

(2) Increases in 2012 and 2011 qualified pension net periodic benefit cost are primarily attributable to declines in the discount rates from 5.56% at December 31, 2010 to 4.63% at December 31, 2011 to 4.08% at December 31, 2012. A portion of our qualified pension net periodic benefit cost is capitalized to property, plant and equipment upon the use of internal labor for capital projects. Excluding the capitalized net periodic benefit cost, for the years ended December 31, 2012, 2011 and 2010, we recognized $17.8 million, $12.2 million and $10.0 million of pension expense, respectively. *See* note (9) "Employee Benefit Plans" to our consolidated financial statements in "Item 8. Financial Statements and Supplementary Data" included elsewhere in this Annual Report for further information on our company-sponsored qualified pension plans.

(3) The decrease in 2012 bad debt expense is primarily due to settlements with wholesale carriers and an improvement in accounts receivable aging. For the years ended December 31, 2012, 2011 and 2010, we recognized $7.5 million, $21.8 million and $20.5 million of bad debt expense, respectively.

(4) During the fiscal year 2012, we realized cost reductions in employee benefits and a decline in employee wages associated with our effort to consolidate operational functions and realign our human resources with the changing telecommunications landscape. For the years ended December 31, 2012, 2011 and 2010, we recognized $122.3 million, $133.7 million and $129.3 million of employee expense, respectively.

(5) In 2012, we worked to consolidate operational functions and realign our human resources with the changing telecommunications landscape resulting in an increase in 2012 severance expense. For the years ended December 31, 2012, 2011 and 2010, we recognized $3.9 million, $1.3 million and $1.1 million of severance expense, respectively.

(6) Decreases in other SG&A expenses are primarily attributable to reductions in general and administrative expenses, principally consulting fees and the use of contract labor, associated with our process improvements.

Depreciation and Amortization

Depreciation and amortization includes depreciation of our communications network and equipment and amortization of intangible assets. We require significant capital expenditures to maintain, upgrade and enhance our network facilities and operations. We expect to reduce our capital expenditures in the upcoming years, which will likely reduce or stabilize our depreciation expense.

Upon the adoption of fresh start accounting, we recorded amortizable intangible assets which are mainly comprised of a $99.0 million intangible asset related to our customer lists with a weighted average life of 9 years. We expect amortization expense to remain consistent throughout the remainder of its useful life.

The following table reflects the primary drivers of year-over-year changes in depreciation and amortization expense (in millions):

	Year Ended December 31, 2012			Year Ended December 31, 2011		
		Increase (Decrease)	%		Increase (Decrease)	%
Depreciation of property, plant and equipment (1)	$	18.9		$	79.3	
Amortization of intangible assets (2)		(0.7)			(10.7)	
Total changes in depreciation and amortization expense	**$**	**18.2**	**5%**	**$**	**68.6**	**24%**

(1) In conjunction with the adoption of fresh start accounting, our assets and liabilities were recorded at fair value. On the Effective Date, while the carrying value of our property, plant and equipment was written down to fair value, the remaining useful lives established were, in general, shorter than their original estimated useful lives, resulting in an aggregate increase in their depreciation expense over the course of their remaining useful lives. This, coupled with significant capital expenditures during recent years, has resulted in an increase in depreciation expense during fiscal year 2012 and the 341 days ended December 31, 2011. For the years ended December 31, 2012, 2011 and 2010, we recognized $365.5 million, $346.6 million and $267.3 million of depreciation expense, respectively.

(2) Prior to the Effective Date, we were amortizing a $208.5 million gross intangible asset related with Telecom Group's customer lists over a weighted average life of 9.7 years. Upon the adoption of fresh start accounting, this intangible asset was eliminated and new intangible assets were established. Amortization of the intangible assets recorded on the Effective Date has resulted in a decrease to amortization expense during the fiscal year 2012 and the 341 days ended December 31, 2011. For the years ended December 31, 2012, 2011 and 2010, we recognized $11.2 million, $11.9 million and $22.6 million of amortization expense, respectively.

Reorganization Related Income

Reorganization related income represents income or expense amounts that have been recognized as a direct result of the Chapter 11 Cases, occurring after the Effective Date. We will continue to incur expenses associated with the Chapter 11 Cases until all such cases have been closed with the Bankruptcy Court. In addition, income may be recognized to the extent that we favorably settle outstanding claims in the claims reserve established to pay outstanding bankruptcy claims and various other bankruptcy related fees (the "Claims Reserve"). As of December 31, 2012, the Claims Reserve is $1.3 million.

Impairment of Intangible Assets and Goodwill

At September 30, 2011, as a result of the significant sustained decline in our stock price since the Effective Date, our market capitalization dropped below our book value. Signaling a possible impairment, we performed interim impairment tests on our goodwill and non-amortizable trade name. Results of these interim impairment tests required us to write off the entire balance of goodwill and write down the carrying value of the non-amortizable trade name to $39.2 million.

The following table reflects the impairment charges recorded during the year ended December 31, 2011 (in millions):

	Year Ended December 31, 2011	
Goodwill	$	243.2
Non-amortizable trade name		18.8
Total impairment of intangible assets and goodwill	**$**	**262.0**

Interest Expense

The following table reflects a summary of interest expense recorded during the years ended December 31, 2012, 2011 and 2010, respectively (in millions):

	Year Ended December 31, 2012	Year Ended December 31, 2011	Year Ended December 31, 2010
Old Credit Agreement Loans	$ 66.6	$ 63.0	$ —
Pre-Petition Credit Facility	—	9.1	138.2
Amortization of debt issue costs	0.7	0.7	2.0
Other interest expense	0.4	0.5	0.7
Less: capitalized interest	(0.1)	(0.2)	—
Total interest expense	**$ 67.6**	**$ 73.1**	**$ 140.9**

Interest expense decreased $5.5 million (8%) and $67.8 million (48%) in the years ended December 31, 2012 and 2011, respectively, from the prior respective years.

The decrease in 2012 interest expense is primarily attributable to the 24 days ended January 24, 2011 whereby we were subject to interest charges under the Pre-Petition Credit Facility. During the 24 days ended January 24, 2011, the Pre-Petition Credit Facility had an outstanding balance of $2.0 billion with a weighted average interest rate of 6.94%. The Old Credit Agreement Loans during the same period of 2012 had an outstanding balance of $1.0 billion with a weighted average interest rate of 6.5%. In addition, we paid down $43.0 million of principal payments on our Old Term Loan in 2012, of which $33.0 million exceeded the scheduled payments and was allocated to the final payment due at maturity.

The significant reduction in interest expense in 2011 is mainly associated with the termination of the Pre-Petition Credit Facility on the Effective Date. On the Effective Date, we entered into the Old Credit Agreement and began accruing interest on the Old Credit Agreement Loans on a significantly lower outstanding balance and a weighted average interest rate of 6.5%.

On February 14, 2013, in connection with the Refinancing, we (i) issued $300.0 million aggregate principal amount of the Notes, (ii) entered into the New Credit Agreement and (iii) used the proceeds from the Notes and the New Credit Agreement and cash on hand to repay the entire amount outstanding under our Old Credit Agreement, including accrued interest, and to pay fees, expenses and other costs related to the Refinancing. The Notes will accrue interest at a rate of 8.75% per annum. The New Credit Agreement provides for the $75.0 million New Revolving Facility and the $640.0 million New Term Loan. Interest on borrowings under the New Credit Agreement Loans accrues at an annual rate equal to either LIBOR or the base rate, in each case plus an applicable rate. For further information regarding the New Credit Agreement and the Notes, *see* "—Liquidity and Capital Resources—Debt" herein.

Other Income

The following table reflects a summary of other income recorded during the years ended December 31, 2012, 2011 and 2010 (in millions):

	Year Ended December 31, 2012	Year Ended December 31, 2011	Year Ended December 31, 2010
Lease contract settlement	$ —	$ —	$ 3.0
Other income (expense), net	0.7	1.7	(0.3)
Total other income, net	**$ 0.7**	**$ 1.7**	**$ 2.7**

Reorganization Items

Reorganization items represent income or expense amounts that have been recognized as a direct result of the Chapter 11 Cases, prior to the Effective Date. For details of items within Reorganization items, *see* note (4) "Reorganization Under Chapter 11—Financial Reporting in Reorganization—Reorganization Items" to our consolidated financial statements in "Item 8. Financial Statement and Supplementary Data" included elsewhere in this Annual Report.

Income Taxes

The effective income tax rate for the years ended December 31, 2012, 2011 and 2010 was 38.4% benefit, 56.9% expense and 2.6% benefit, respectively.

The effective tax rate for 2012 was primarily impacted by state taxes, as well as a favorable provision to return permanent adjustments, partially offset by an increase to the valuation allowance for deferred tax assets.

The effective tax rate for 2011 was primarily impacted by the impairment charge to reduce our goodwill to zero and from certain non-taxable cancellation of indebtedness income resulting from our emergence from bankruptcy.

The effective tax benefit rate for 2010 was impacted by a one-time, non-cash income tax charge of $6.8 million resulting from the enactment of the *Patient Protection and Affordable Care Act* and the *Health Care and Education Reconciliation Act of 2010*, both of which became law in March 2010. The effective tax rate was also impacted by non-deductible restructuring charges and post-petition interest, as well as a significant increase in our valuation allowance for deferred tax assets due to our inability, by rule, to rely on future earnings to offset our NOLs during the Chapter 11 Cases. Upon the Effective Date, our NOLs were substantially reduced by the recognition of gains on the discharge of certain debt pursuant to the Plan.

For 2013, our annualized effective income tax rate is expected to range from 39% to 41%, excluding one-time discrete items. Changes in the relative profitability of our business, as well as recent and proposed changes to federal and state tax laws may cause the rate to change from historical rates. *See* note (10) "Income Taxes" to our consolidated financial statements in "Item 8. Financial Statements and Supplementary Data" included elsewhere in this Annual Report for further discussion on income taxes.

Discontinued Operations

On November 28, 2012, we entered into an agreement to sell the capital stock of our Idaho-based operations to Blackfoot Telecommunications Group of Missoula, Montana for approximately $30 million in cash. The transaction closed on January 31, 2013. The operating results of these Idaho-based operations are immaterial and, accordingly, have not been segregated as discontinued operations for reporting purposes. Details of their operating results are included in note (18) "Asset Held for Sale" to our consolidated financial statements in "Item 8. Financial Statements and Supplementary Data" included elsewhere in this Annual Report.

Liquidity and Capital Resources

Overview

Cash and cash equivalents at December 31, 2012 totaled $23.2 million, compared to $17.4 million at December 31, 2011, excluding restricted cash of $7.5 million and $25.1 million, respectively. In 2012, cash inflows were largely generated through cash flows from operations of $192.8 million, a majority of which was offset by $145.1 million of capital expenditures and $43.0 million of principal payments on our Old Term Loan, of which $33.0 million exceeded the scheduled payments and was allocated to the final payment due at maturity.

Our current and future liquidity is greatly dependent upon our operating results. We expect that our primary sources of liquidity will be cash flow from operations, cash on hand and funds available under the New Revolving Facility. Our short-term and long-term liquidity needs arise primarily from:

(i) interest and principal payments on our indebtedness;

(ii) capital expenditures;

(iii) working capital requirements as may be needed to support and grow our business; and

(iv) contributions to our qualified pension plan and payments under our post-retirement healthcare plans.

Based on our current and anticipated levels of operations and conditions in our markets, we believe that cash on hand (including amounts available under the New Revolving Facility) as well as cash flow from operations will enable us to meet our working capital, capital expenditure, debt service and other funding requirements for at least the next 12 months. We were in compliance with the maintenance covenants contained in the Old Credit Agreement for 2012 and expect to be in compliance with the maintenance covenants contained in the New Credit Agreement for 2013.

Cash Flows

The following table sets forth our consolidated cash flow results reflected in our consolidated statements of cash flows (in millions):

Net cash flows provided by (used in):		Combined		Predecessor Company	
	Year Ended December 31, 2012	Year Ended December 31, 2011	Three Hundred Forty-One Days Ended December 31, 2011	Twenty-Four Days Ended January 24, 2011	Year Ended December 31, 2010
Operating activities	$ 192.8	$ 89.0	$ 170.1	$ (81.1)	$ 191.6
Investing activities	(144.3)	(175.3)	(162.9)	(12.5)	(197.3)
Financing activities	(42.6)	(1.8)	(0.2)	(1.7)	1.8
Net increase (decrease) in cash	**$ 5.9**	**$ (88.1)**	**$ 7.1**	**$ (95.2)**	**$ (3.9)**

Operating activities. Net cash provided by operating activities is our primary source of funds. Net cash provided by operating activities in 2012 increased $103.8 million as compared to 2011. The increase is primarily driven by the establishment of an $82.8 million reserve for payment of outstanding bankruptcy claims (the "Cash Claims Reserve") on the Effective Date. Net cash provided by operating activities for the year ended December 31, 2012 and the 341 days ended December 31, 2011 represent the operating activities after the Effective Date; however, they include payment of $8.8 million and $66.7 million, respectively, in claims of the Predecessor Company, of which $3.8 million and $59.9 million, respectively, of these claims were paid using funds of the Cash Claims Reserve established on the Effective Date by the Predecessor Company. Accordingly, $5.0 million and $6.8 million of cash on hand was used to pay claims of the Predecessor Company during the year ended December 31, 2012 and the 341 days ended December 31, 2011, respectively. During the year ended December 31, 2012, $10.8 million of the Cash Claims Reserve was reclaimed by the Company as a source of cash on hand.

In addition, during 2012, $5.3 million and $2.4 million, respectively, of the Cash Claims Reserve were reclassified to another restricted cash account in conjunction with the VPSB’s approval of our request to use these funds to deploy broadband in unserved areas of Vermont, and the NHPUC’s approval, together with the approval of the New Hampshire governor and executive council, of our request to use these funds to deploy broadband in unserved areas of New Hampshire. These reclassifications had no impact on cash provided by operating activities.

Net cash provided by operating activities for the year ended December 31, 2011 decreased $102.6 million as compared to the same period in 2010. The decrease is primarily driven by the establishment of the $82.8 million Cash Claims Reserve on the Effective Date and the payment of interest in the normal course of business after the Effective Date. Net cash provided by operating activities for the 341 days ended December 31, 2011 represents the operating activities after the Effective Date; however, it includes payment of $66.7 million in claims of the Predecessor Company, of which $59.9 million of these claims were paid using funds of the Cash Claims Reserve established on the Effective Date by the Predecessor Company. Accordingly, $6.8 million of cash on hand was used to pay claims of the Predecessor Company during the 341 days ended December 31, 2011. During 2011, $6.2 million of the Cash Claims Reserve was reclaimed by the Company as a source of cash on hand. Upon filing bankruptcy, we continued to accrue, but did not pay, interest on the Pre-Petition Credit Facility, as such interest was considered an allowed claim pursuant to the Plan. The non-payment of interest on the Pre-Petition Credit Facility resulted in a source of cash on hand. Upon the Effective Date, we began paying interest on our Old Credit Agreement Loans in the normal course during the 341 days ended December 31, 2011.

Investing activities. Net cash used in investing activities is mainly comprised of capital expenditures for all periods.

Financing activities. Net cash used in financing activities in 2012 increased $40.8 million as compared to 2011. This increase is largely attributable to the $43.0 million of principal payments on the Old Term Loan, of which $33.0 million exceeded the scheduled payments and was allocated to the final payment due at maturity.

Net cash used in financing activities increased $3.6 million during the year ended December 31, 2011 from $1.8 million of net cash provided by financing activities during the year ended December 31, 2010. In 2011, we paid $2.4 million of loan origination costs on the Old Credit Agreement and repaid $1.3 million of our capital lease obligations. These expenditures were partially offset by $1.9 million source of restricted cash used for the removal of our dual poles in Vermont. In 2010, we drew down $5.5 million on letters of credit under the Pre-Petition Credit Facility and incurred $1.5 million of loan origination costs on the DIP Credit Agreement.

On February 14, 2013, in connection with the Refinancing, we (i) issued $300.0 million aggregate principal amount of the Notes, (ii) entered into the New Credit Agreement and (iii) used the proceeds from the Notes and the New Credit Agreement and cash on hand to repay principal of $946.5 million outstanding on our Old Term Loan, plus an additional approximately $7.7 million of accrued interest, and to pay approximately $33.0 million of fees, expenses and other costs related to the Refinancing. The New Credit Agreement provides for the $75.0 million New Revolving Facility and the $640.0 million New Term Loan. For further information regarding the New Credit Agreement and the Notes, *see* "—Debt" herein.

Pension Contributions and Post-Retirement Healthcare Plan Expenditures

During the year ended December 31, 2012, we made contributions to our Company sponsored qualified pension plans of $19.8 million and funded benefit payments of $3.5 million under our post-retirement healthcare plans.

On July 6, 2012, the *Moving Ahead for Progress in the 21st Century Act* was signed into law. This act contains a pension funding stabilization provision which allows pension plan sponsors to use higher interest rate assumptions when determining funded status and funding obligations. As a result, our 2013 minimum required pension plan contribution is $5.6 million, which is lower than it would have been in the absence of this stabilization provision. We believe that the intent of the stabilization provision is to alter the timing of pension plan contributions, not to reduce the long-term funding of pension plans. Accordingly, the relief we will receive as a result of the stabilization provision may be temporary in nature in that our near-term required contributions will be less than they otherwise would have been and will increase in the medium to long-term.

On September 25, 2012, we elected to defer use of the higher segment rates under this act until the first plan year beginning on or after January 1, 2013 solely for determination of the adjusted funding target attainment percentage ("AFTAP") used to determine benefit restrictions under Section 436 of the Code.

In 2013, we expect to contribute approximately $15.0 million, including our minimum required and discretionary contributions, to our Company sponsored qualified pension plans, as required by the Pension Protection Act of 2006, and we expect to fund approximately $5.1 million in benefit payments under our post-retirement healthcare plans.

Capital Expenditures

We require significant capital expenditures to maintain, upgrade and enhance our network facilities and operations. In 2012, our net capital expenditures totaled $145.1 million, compared to $176.1 million in 2011. Net capital expenditures were higher in 2011 due primarily to two projects, Fiber to the Tower ("FTTT") and the regulatory broadband build out, which were completed during 2011. Net capital expenditures in 2012 were primarily due to expansion of our broadband footprint in New Hampshire in accordance with a regulatory commitment to reach 95% of customers in the state by December 31, 2013. We anticipate that we will fund future capital expenditures through cash flows from operations, cash on hand and funds available under the New Revolving Facility.

Debt

The New Credit Agreement. In connection with the Refinancing, we entered into the New Credit Agreement, which provides for the $75.0 million New Revolving Facility and the $640.0 million New Term Loan. The New Credit Agreement Loans replace the Old Credit Agreement Loans, which were terminated on the Refinancing Closing Date. The principal amount of the New Term Loan and commitments under the New Revolving Facility may be increased by an aggregate amount of up to $200.0 million, subject to certain terms and conditions specified in the New Credit Agreement. The New Term Loan will mature on February 14, 2019 and the New Revolving Facility will mature on February 14, 2018, subject in each case to extensions pursuant to the terms of the New Credit Agreement.

Interest Rates and Fees. Interest on borrowings under the New Credit Agreement Loans accrue at an annual rate equal to either LIBOR or the base rate, in each case plus an applicable rate. LIBOR is the per annum rate reported by Reuters for dollar deposits with an interest period of one, two, three or six months (at our election) in the London interbank market, with a minimum LIBOR floor of 1.25% for the New Term Loan. The base rate for any date is the per annum rate equal to the greatest of (x) the federal funds effective rate plus 0.50%, (y) the rate of interest publicly quoted from time to time by The Wall Street Journal as the United States "Prime Rate" and (z) LIBOR with an interest period of one month plus 1.00%. The applicable rate for the New Term Loan is (a) 6.25% per annum with respect to term loans bearing interest based on LIBOR, or (b) 5.25% per annum with respect to term loans bearing interest based on the base rate. The applicable rate for the New Revolving Facility is, initially, (a) 5.50% with respect to revolving loans bearing interest based on LIBOR, or (b) 4.50% per annum with respect to revolving loans bearing interest based on the base rate, in each case subject to adjustment after March 31, 2013 based on our consolidated total leverage ratio, as defined in the New Credit Agreement. We are required to pay a per annum letter of credit fee on the average daily amount available to be drawn under letters of credit issued under the New Revolving Facility equal to the applicable rate for revolving loans bearing interest based on LIBOR, calculated on a quarterly basis and payable quarterly in arrears, plus a fronting fee of 0.125% per annum on the average daily amount available to be drawn under such letters of credit, also calculated on a quarterly basis and payable quarterly in arrears, and the customary issuance, presentation, amendment and other processing fees, and other standard costs and charges, of the letter of credit issuer. In addition, we are required to pay a per annum commitment fee on the average daily unused portion of the New Revolving Facility, which is 0.50% initially, subject to reduction to 0.375% after March 31, 2013 based on our consolidated total leverage ratio, calculated on a quarterly basis and payable quarterly in arrears.

Security/Guarantors. All obligations under the New Credit Agreement, together with designated hedging obligations and cash management obligations incurred with a counterparty that was a Lender, an arranger or an affiliate of a Lender or an arranger at the time the applicable hedge agreement or cash management agreement was entered into, are unconditionally guaranteed on a senior secured basis by each of the Subsidiary Guarantors and secured by a first-priority lien on substantially all personal property of the Company and the Subsidiary Guarantors, subject to certain exclusions set forth in the related security documents, pari passu with the lien securing the obligations under the Notes. The New Credit Agreement requires us, upon the formation or acquisition of any new direct or indirect subsidiary, unless such subsidiary is not a material subsidiary or is designated as an unrestricted subsidiary, as defined in the New Credit Agreement, to cause such subsidiary to become a guarantor and grant a first-priority lien on substantially all of its assets to secure the obligations under the New Credit Agreement and the designated hedging obligations and cash management obligations, subject to certain significant exceptions and limitations, including if such subsidiary is prohibited by applicable law from guaranteeing such obligations or providing any security for such obligations without the consent of a public utility commission, public service commission or similar agency or commission, the FCC or any other governmental authority having jurisdiction over such subsidiary or is subject to regulatory approvals or regulatory restrictions on borrowings or issuances of guaranties of debt for borrowed money or the granting of liens on its assets or equity interests.

Mandatory Repayments. We are required to make quarterly repayments of the New Term Loan in a principal amount equal to $1.6 million during the term of the New Credit Agreement, beginning June 30, 2013, with such repayments being reduced based on the application of mandatory and optional prepayments of the New Term Loan made from time to time. In addition, subject to certain important exceptions and limitations set forth in the New Credit Agreement, amounts due under the New Credit Agreement are mandatorily repayable with (i) a percentage, initially equal to 50% and subject to reduction to 25% in subsequent fiscal years based on our consolidated total leverage ratio, of our excess cash flow, as defined in the New Credit Agreement, beginning with the fiscal year ending December 31, 2013, (ii) the net cash proceeds of certain asset dispositions, insurance proceeds and condemnation awards in excess of a threshold amount per annum and subject to significant reinvestment rights and (iii) issuances of debt not permitted to be incurred under the New Credit Agreement. Optional prepayments of the New Term Loan and mandatory prepayments of the New Term Loan resulting from the incurrence of debt not permitted to be incurred under the New Credit Agreement, in each case made on or prior to February 14, 2016, are required to be made at (i) 103.0% of the aggregate principal amount of the New Term Loan so prepaid if such prepayment is made on or prior to February 14, 2014, (ii) 102.0% of the aggregate principal amount of the New Term Loan so prepaid if such prepayment is made after February 14, 2014, but on or prior to February 14, 2015, and (iii) 101.0% of the aggregate principal amount of the New Term Loan so prepaid if such prepayment is made after February 14, 2015 and on or prior to February 14, 2016. No prepayment premium is required to be paid with respect to any optional prepayment of the New Term Loan or any mandatory prepayment of the New Term Loan resulting from the incurrence of debt not permitted to be incurred under the New Credit Agreement, in each case made after February 14, 2016.

Covenants. The New Credit Agreement contains customary representations and warranties and affirmative and negative covenants for a transaction of this type, including two financial maintenance covenants: (i) a consolidated interest coverage ratio, and (ii) a consolidated total leverage ratio. Each of these covenants are as defined in the New Credit Agreement and determined on a pro forma basis after giving effect to voluntary prepayments of debt, dispositions of material assets outside of the ordinary course of business and certain investments, including acquisitions permitted to be incurred under the New Credit Agreement. The New Credit Agreement also contains a covenant limiting the maximum amount of capital expenditures that we and our subsidiaries may make in any fiscal year, subject to significant exceptions and carryover rights.

Events of Default. The New Credit Agreement also contains customary events of default for a transaction of this type.

The Notes. On the Refinancing Closing Date, we issued $300.0 million in aggregate principal amount of the Notes in a private offering exempt from registration under the Securities Act pursuant to the Indenture.

The terms of the Notes are governed by the Indenture. The Notes are senior secured obligations of the Company and are guaranteed by the Subsidiary Guarantors. The Notes and the guarantees thereof are secured by a first-priority lien on substantially all personal property of the Company and the Subsidiary Guarantors, subject to certain exclusions set forth in the related security documents, pari passu with the lien securing the obligations under the New Credit Agreement. The Notes will mature on August 15, 2019 and accrue interest at a rate of 8.75% per annum, which is payable semi-annually in arrears on February 15 and August 15, commencing on August 15, 2013.

On or after February 15, 2016, we may redeem all or part of the Notes at the redemption prices set forth in the Indenture, plus accrued and unpaid interest thereon, to the applicable redemption date. At any time prior to February 15, 2016, we may redeem all or part of the Notes at a redemption price equal to 100% of the principal amount of the Notes redeemed, plus a “make-whole” premium as of, and accrued and unpaid interest to, the applicable redemption date. In addition, at any time prior to February 15, 2016, we may, on one or more occasions, redeem up to 35% of the original aggregate principal amount of the Notes, using net cash proceeds of certain qualified equity offerings, at a redemption price of 108.75% of the principal amount of Notes redeemed, plus accrued and unpaid interest to the applicable redemption date.

The holders of the Notes have the ability to require us to repurchase all or any part of the Notes if we experience certain kinds of changes in control or engage in certain asset sales, in each case at the repurchase prices and subject to the terms and conditions set forth in the Indenture.

The Indenture contains certain covenants which are customary with respect to non-investment grade debt securities, including limitations on our ability to incur additional indebtedness, pay dividends on or make other distributions or repurchase our capital stock, make certain investments, enter into certain types of transactions with affiliates, create liens and sell certain assets or merge with or into other companies. These covenants are subject to a number of important limitations and exceptions.

The Indenture also provides for customary events of default, including cross defaults to other specified debt of the Company and certain of its subsidiaries. In the case of an event of default arising from specified events of bankruptcy or insolvency, all outstanding Notes will become due and payable immediately without further action or notice. If any other event of default occurs and is continuing, the Notes Trustee or holders of at least 25% in principal amount of the then outstanding Notes may declare all the Notes to be due and payable immediately. In the case of a declaration of the acceleration of the Notes because an event of default has occurred as a result of a cross default on the Company or its subsidiaries' other specified debt, the declaration of acceleration of the Notes will be automatically annulled if the holders of all such other specified debt have rescinded the declaration of acceleration in respect of such other debt.

The Old Credit Agreement. On the Effective Date, the Old Credit Agreement Borrowers entered into the Old Credit Agreement. The Old Credit Agreement was comprised of the Old Revolving Facility, which had a sub-facility providing for the issuance of up to $30.0 million of letters of credit, and the Old Term Loan. The entire outstanding principal amount of the Old Credit Agreement Loans was due and payable five years after the Effective Date, subject to certain conditions. On February 14, 2013, we entered into the New Credit Agreement and repaid all outstanding amounts under the Old Credit Agreement, which was subsequently terminated. In addition, the following agreements relating to the Old Credit Agreement Loans were terminated on the Refinancing Closing Date: (i) the Security Agreement, dated as of January 24, 2011, among FairPoint Communications, the subsidiaries of FairPoint Communications party thereto and Bank of America, N.A. as administrative agent, (ii) the Pledge Agreement, dated as of January 24, 2011, made by FairPoint Communications and the subsidiaries of FairPoint Communications party thereto in favor of Bank of America, N.A., as administrative agent, and (iii) the Continuing Guaranty, dated as of January 24, 2011, made by the subsidiaries of FairPoint Communications party thereto in favor of Bank of America, N.A., as administrative agent.

The DIP Credit Agreement. In connection with the Chapter 11 Cases, on October 27, 2009, the DIP Borrowers entered into the DIP Credit Agreement with the DIP Lenders and the DIP Administrative Agent. The DIP Credit Agreement provided for a revolving facility in an aggregate principal amount of up to $75.0 million, of which up to $30.0 million was also available in the form of one or more letters of credit that could have been issued to third parties for our account (the "DIP Financing"). Pursuant to an order of the Bankruptcy Court, dated October 28, 2009, the DIP Borrowers were authorized to enter into and immediately draw upon the DIP Credit Agreement on an interim basis in an aggregate amount of $20.0 million, pending a final hearing before the Bankruptcy Court. On March 11, 2010, the Bankruptcy Court issued a final order relating to the DIP Financing, permitting the DIP Borrowers access to the total $75.0 million of the DIP Financing, subject to the terms and conditions of the DIP Credit Agreement and related orders of the Bankruptcy Court, of which up to $30.0 million was available in the form of one or more letters of credit that were issued to third parties for the DIP Borrowers' account.

On the Effective Date, the DIP Credit Agreement was converted into the Old Revolving Facility with a five-year term. All letters of credit outstanding under the DIP Credit Agreement were transferred to the Old Credit Agreement on the Effective Date.

The Pre-Petition Credit Facility. The $2,030.0 million Pre-Petition Credit Facility consisted of a non-amortizing revolving facility in an aggregate principal amount of $200.0 million, a senior secured term loan A facility in an aggregate principal amount of $500.0 million, a senior secured term loan B facility in the aggregate principal amount of $1,130.0 million (together with the term loan A facility, the "Pre-Petition Term Loan") and a delayed draw term loan facility in an aggregate principal amount of $200.0 million (the "Pre-Petition Delayed Draw Term Loan"). Spinco drew $1,160.0 million under the Pre-Petition Term Loan immediately prior to being spun off by Verizon, and then FairPoint drew $470.0 million under the Pre-Petition Term Loan and $5.5 million under the Pre-Petition Delayed Draw Term Loan concurrently with the closing of the Merger. Subsequent to the Merger, we borrowed the remaining $194.5 million available under the Pre-Petition Delayed Draw Term Loan. These funds were used for certain capital expenditures and other expenses associated with the Merger.

On the Effective Date, the Pre-Petition Credit Facility and all obligations thereunder were terminated (except that the Pre-Petition Credit Facility continued in effect solely for the purposes of allowing creditors under the Pre-Petition Credit Facility to receive distributions under the Plan and to preserve certain rights of the administrative agent).

The Pre-Petition Notes. Spinco issued, and we assumed in the Merger, $551.0 million aggregate principal amount of the Old 13-1/8% Notes. The Old 13-1/8% Notes were to mature on April 1, 2018 and were not redeemable at our option prior to April 1, 2013. The Old 13-1/8% Notes were issued at a discount and, accordingly, at the date of their distribution, the Old 13-1/8% Notes had a carrying value of $539.8 million (principal amount at maturity of $551.0 million less discount of $11.2 million). Following the filing of the Chapter 11 Cases, $9.9 million of discount on the Pre-Petition Notes was written off in order to adjust the carrying amount of our pre-petition debt to the Bankruptcy Court approved amount of the allowed claims for our pre-petition debt.

Pursuant to our offer to exchange the Old 13-1/8% Notes for the New 13-1/8% Notes (the "Exchange Offer"), on July 29, 2009, we exchanged $439.6 million in aggregate principal amount of the Old 13-1/8% Notes (which amount was equal to approximately 83% of the then outstanding Old 13-1/8% Notes) for $458.5 million in aggregate principal amount of the New 13-1/8% Notes (which amount included New 13-1/8% Notes issued to tendering note holders as payment for accrued and unpaid interest on the exchanged Old 13-1/8% Notes up to, but not including, the July 29, 2009 settlement date of the Exchange Offer).

On the Effective Date, all outstanding obligations under the Pre-Petition Notes and the indentures governing the Pre-Petition Notes were terminated.

Other Pre-Petition Agreements. As a condition to the approval of the Merger and related transactions by state regulatory authorities we agreed to make certain capital expenditures following the completion of the Merger, which were modified by Regulatory Settlements agreed to with representatives for each of Maine, New Hampshire and Vermont and approved by the applicable regulatory authorities in Maine, New Hampshire and Vermont, and approved by the Bankruptcy Court as part of the Plan. For further information on these capital expenditure requirements, *see* "Item 1. Business—Regulatory Environment—State Regulation—Regulatory Conditions to the Merger, as Modified in Connection with the Plan" included elsewhere in this Annual Report.

Off-Balance Sheet Arrangements

As of December 31, 2012, we had approximately $12.0 million in outstanding standby letters of credit under the Old Revolving Facility, and as of February 28, 2013, we had approximately $12.6 million outstanding letters of credit under the New Revolving Facility. We do not have any other off-balance sheet arrangements.

Summary of Contractual Obligations

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

The following table discloses aggregate information about our contractual obligations as of December 31, 2012 and the periods in which payments are due (in thousands):

	Payments due by period				
Contractual Obligations	**Total**	**Less than 1 year**	**1-3 years**	**3-5 years**	**More than 5 years**
Long-term debt obligations, including current maturities [(a)]	$ 957,000	$ 10,000	$ 62,500	$ 884,500	$ —
Interest payments on long-term debt obligations [(b)]	183,036	62,434	106,111	14,491	—
Capital lease obligations, including current maturities	3,097	1,499	1,598	—	—
Operating lease obligations	32,627	10,523	14,546	6,237	1,321
Other long-term liabilities [(c)]	957,188	33,170	48,141	46,090	829,787
Total contractual obligations	**$ 2,132,948**	**$ 117,626**	**$ 232,896**	**$ 951,318**	**$ 831,108**

(a) Long-term debt obligations exclude outstanding letters of credit totaling $12.0 million under the Old Revolving Facility at December 31, 2012. For more information, *see* note (8) "Long-term Debt" to our consolidated financial statements in "Item 8. Financial Statements and Supplementary Data" included elsewhere in this Annual Report. On February 14, 2013, we entered into the New Credit Agreement and issued the Notes. *See* "—Liquidity and Capital Resources" herein and note (20) "Subsequent Events" to our consolidated financial statements in "Item 8. Financial Statements and Supplementary Data" included elsewhere in this Annual Report for additional details of the Refinancing. The information in this table sets forth our contractual obligations under the Old Credit Agreement as of December 31, 2012 and does not include obligations under the New Credit Agreement or obligations relating to the Notes.

(b) Interest payments represent cash payments on the long-term debt and exclude the amortization of capitalized debt issuance costs. On February 14, 2013, we entered into the New Credit Agreement and issued the Notes. *See* "—Liquidity and Capital Resources" herein and note (20) "Subsequent Events" to our consolidated financial statements in "Item 8. Financial Statements and Supplementary Data" included elsewhere in this Annual Report for additional details of the Refinancing. The information in this table sets forth our contractual obligations under the Old Credit Agreement as of December 31, 2012 and does not include obligations under the New Credit Agreement or obligations relating to the Notes.

(c) Other long-term liabilities primarily include our qualified pension and post-retirement healthcare obligations, and deferred tax liabilities. For more information, *see* notes (9) "Employee Benefit Plans" and (10) "Income Taxes" to our consolidated financial statements in "Item 8. Financial Statements and Supplementary Data" included elsewhere in this Annual Report. In addition,

(i) The balance excludes $3.8 million of reserves for uncertain tax positions, including interest and penalties, that were included in deferred tax liabilities at December 31, 2012 for which we are unable to make a reasonably reliable estimate as to when cash settlements with taxing authorities will occur;

(ii) The balance excludes $5.8 million and $0.1 million of non-cash unfavorable union contracts and unfavorable leasehold agreements, respectively, that were recorded upon the adoption of fresh start accounting and are included in other long-term liabilities at December 31, 2012. For further information, *see* note (2) "Summary of Significant Accounting Policies—(o) Other Liabilities" to our consolidated financial statements in "Item 8. Financial Statements and Supplementary Data" included elsewhere in this Annual Report;

(iii) The balance includes the current portion of our post-retirement healthcare obligations of $5.1 million presented in the current portion of other accrued liabilities at December 31, 2012; and

(iv) Our 2013 pension contribution is expected to be $15.0 million, which includes our minimum required contribution and an additional discretionary contribution, and has been reflected as due in less than one year. Our actual contribution could differ from this estimation. Due to uncertainties in the pension funding calculation, the amount and timing of any other pension contributions are unknown and therefore the remaining accrued pension obligation has been reflected as due in more than 5 years.

Critical Accounting Policies and Estimates

As disclosed in note (2) "Summary of Significant Accounting Policies" to our consolidated financial statements in "Item 8. Financial Statements and Supplementary Data" included elsewhere in this Annual Report, the preparation of our financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions about future events that affect the amounts reported in our consolidated financial statements and accompanying notes. Actual results could differ significantly from those estimates. We believe that the following discussion addresses our most critical accounting policies, which are those that are most important to the portrayal of our financial condition and results of operations and require management's most difficult, subjective and complex judgments. Our critical accounting policies as of December 31, 2012 are as follows:

- Revenue recognition;
- Allowance for doubtful accounts;
- Accounting for qualified pension and other post-retirement healthcare benefits;
- Accounting for income taxes;
- Depreciation of property, plant and equipment;
- Stock-based compensation; and
- Valuation of long-lived assets.

Revenue Recognition. We recognize service revenues based upon usage of our local exchange network and facilities and contract fees. Fixed fees for voice services, Internet services and certain other services are recognized in the month the service is provided. Revenue from other services that are not fixed fee or that exceed contracted amounts is recognized when those services are provided. Non-recurring customer activation fees, along with the related costs up to, but not exceeding, the activation fees, are deferred and amortized over the customer relationship period. SQI penalties and certain PAP penalties are recorded as a reduction to revenue.

We recognize certain revenues pursuant to various cost recovery programs from state and federal USF, CAF/ICC and from revenue sharing agreements with other LECs administered by the National Exchange Carrier Association ("NECA"). Revenues are calculated based on our investment in our network and other network operations and support costs. We have historically collected revenues recognized through this program; however, adjustments to estimated revenues in future periods are possible.

These adjustments could be necessitated by adverse regulatory developments with respect to these subsidies and revenue sharing arrangements, changes in the allowable rates of return, the determination of recoverable costs and/or decreases in the availability of funds in the programs due to increased participation by other carriers.

We make estimated adjustments, as necessary, to revenue or accounts receivable for billing errors, including certain disputed amounts. If circumstances related to these adjustments change or our knowledge evolves, our estimate of the recoverability of our accounts receivable could be further reduced from the levels provided in our consolidated financial statements.

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

On the Effective Date, the accounts receivable balances were valued at fair value using the net realizable value approach. The net realizable value approach was determined by reducing the gross receivable balance by our allowance for doubtful accounts. Due to the relatively short collection period, the net realizable value approach was determined to result in a reasonable indication of fair value of the assets.

Accounting for Pension and Other Post-retirement Healthcare Benefits. Some of our employees participate in our qualified pension plans and other post-retirement healthcare plans. In the aggregate, the benefit obligations of the qualified pension plans exceed the fair value of their respective assets and the post-retirement healthcare plans do not have plan assets, resulting in expense. Significant qualified pension and other post-retirement healthcare plan assumptions, including the discount rate used, the long-term rate-of-return on plan assets, and medical cost trend rates are periodically updated and impact the amount of benefit plan income, expense, assets and obligations reflected in our consolidated financial statements. The actuarial assumptions we used in determining our qualified pension and post-retirement healthcare plans obligations may differ materially from actual results due to changing market and economic conditions, higher or lower withdrawal rates or longer or shorter life spans of participants. While we believe that the assumptions used are appropriate, differences in actual experience or changes in assumptions might materially affect our financial position or results of operations.

Our qualified pension and post-retirement liabilities are highly sensitive to changes in the discount rate. We currently estimate that a movement of 1% in the discount rate would change our December 31, 2012 qualified pension plan benefit obligations by approximately 20%. We currently estimate that a 1% fluctuation in the discount rate would change our December 31, 2012 post-retirement healthcare benefit obligations by approximately 23%.

The post-retirement healthcare benefit obligations are also highly sensitive to the medical trend rate assumption. A 1% increase in the medical trend rate assumed for post-retirement healthcare benefits at December 31, 2012 would result in an increase in the post-retirement healthcare benefit obligations of approximately $158.2 million and a 1% decrease in the medical trend rate assumed at December 31, 2012 would result in a decrease in the post-retirement healthcare benefit obligations of approximately $119.2 million.

For additional information on our qualified pension and post-retirement healthcare plans, *see* note (9) "Employee Benefit Plans" to our consolidated financial statements in "Item 8. Financial Statements and Supplementary Data" included elsewhere in this Annual Report.

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

For additional information on income taxes, *see* note (10) "Income Taxes" to our consolidated financial statements in "Item 8. Financial Statements and Supplementary Data" included elsewhere in this Annual Report.

Depreciation of Property, Plant and Equipment. We recognize depreciation on property, plant and equipment principally on the composite group remaining life method and straight-line composite rates over estimated useful lives ranging from five to 40 years. This method provides for the recognition of the cost of the remaining net investment in telephone plant, less anticipated net salvage value (if any), over the remaining asset lives. When an asset is retired, the original costs, net of salvage value, is charged against accumulated depreciation and no immediate gain or loss is recognized on the disposition of the asset. Under this method, we review depreciable lives periodically and may revise depreciation rates when appropriate. With the assistance of outside expertise, we completed an analysis of the depreciable lives of assets held for certain subsidiaries in 2012. Based on this analysis, we determined that the Company's current depreciable lives are appropriate. Changes in the estimated useful lives of property, plant and equipment or depreciation methods could have a material effect on our results of operations; however, a change in this non-cash expense would have no impact on our compliance with the covenants contained in the New Credit Agreement.

Stock-based Compensation . Compensation expense for share-based awards made to employees and directors are recognized based on the estimated fair value of each award over the award's vesting period. We estimate the fair value of share-based payment awards on the date of grant using either an option-pricing model for stock options or the closing market value of our stock for restricted stock and expense the value of the portion of the award that is ultimately expected to vest over the requisite service period in the statement of operations.

We utilize the Black-Scholes option pricing model to calculate the fair value of our stock option grants. The key assumptions used in the Black-Scholes option pricing model are the expected life of the stock option, the expected dividend rate, the risk-free interest rate and expected volatility. The expected life of the stock options granted represents the period of time that the options are expected to be outstanding. The risk-free interest rates are based on United States Treasury yields in effect at the date of grant consistent with the expected exercise timeframes. The expected volatility reflects the historical volatility for a duration consistent with the contractual life of the options. Given the lack of historical data of employee behavior and our company, our assumptions of these key inputs in addition to our assumption made about the portion of the awards that will ultimately vest requires subjective judgment.

For additional information on share-based awards, including key assumptions used in calculating the grant date fair values, *see* note (14) "Stock-Based Compensation" to our consolidated financial statements in "Item 8. Financial Statements and Supplementary Data" included elsewhere in this Annual Report.

Valuation of Long-lived Assets. We review our long-lived assets, which include our amortizable intangible assets, for impairment whenever events or changes in circumstances indicate that the carrying value may not be recoverable. In addition, we review non-amortizable intangible assets for impairment on at least an annual basis as of the first day of the fourth quarter of each year, or more frequently whenever indicators of impairment exist. Indicators of impairment could include, but are not limited to:

- an inability to perform at levels that were forecasted;
- a permanent decline in market capitalization;
- implementation of restructuring plans;
- changes in industry trends; and/or
- unfavorable changes in our capital structure, cost of debt, interest rates or capital expenditures levels.

No factors signaling a potential impairment were identified during the year ended December 31, 2012. Accordingly, no impairment review of our long-lived assets was required in 2012.

Our only non-amortizable intangible asset is the FairPoint trade name. As previously discussed, no factors signaling a potential impairment were identified during the year ended December 31, 2012. As a result, no interim impairment review of our trade name was necessary. An annual impairment review was performed on October 1, 2012. We assess the fair value of our trade name utilizing the relief from royalty method. If the carrying amount of our trade name exceeds its estimated fair value, the asset is considered impaired. For this annual impairment review, we made certain assumptions including an estimated royalty rate of 1%, a long-term growth rate of 0.7%, an effective tax rate of 40% and a discount rate of 12.7% and applied these assumptions to projected future cash flows, exclusive of cash flows associated with wholesale revenues as these revenues are not generated through brand recognition. Results of the assessment indicated that an impairment was not necessary; however, changes in one or more of these assumptions could result in the recognition of an impairment loss.

For additional information on our FairPoint trade name, including the impairment charges recorded in the year ended December 31, 2011 on goodwill and our trade name, *see* note (6) "Goodwill and Other Intangible Assets" to our consolidated financial statements in "Item 8. Financial Statements and Supplementary Data" included elsewhere in this Annual Report.

New Accounting Standards

We have adopted the following authoritative guidance issued by the Financial Accounting Standards Board:

- Accounting Standards Update ("ASU") 2012-02 to amend and simplify the annual testing for impairment of indefinite-lived intangible assets;
- ASUs 2011-05 and 2011-12 related to the presentation of comprehensive income; and

- ASU 2011-04 related to achieving common fair value measurements and disclosure requirements between U.S. GAAP and International Financial Reporting Standards.

During the quarter ended March 31, 2013, we will adopt ASU 2013-02 related to disclosure of reclassifications out of accumulated other comprehensive income.

For further details of these ASUs, in addition to our evaluation of their adoption on our consolidated financial statements, *see* note (3) "Recent Accounting Pronouncements" to our consolidated financial statements in "Item 8. Financial Statements and Supplementary Data" included elsewhere in this Annual Report.

Inflation

There are cost of living adjustment clauses in certain of the collective bargaining agreements covering our labor union employees. Considerable fluctuations in cost of living due to inflation could result in an adverse effect on our operations.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We are exposed to market risk in the normal course of our business operations due to ongoing investing and funding activities, including those associated with our qualified pension plan assets. Market risk refers to the potential change in fair value of a financial instrument as a result of fluctuations in interest rates and equity prices. We do not hold or issue derivative instruments, derivative commodity instruments or other financial instruments for trading purposes. As a result, we do not undertake any specific actions to cover our exposure to market risks and we are not party to any market risk management agreements other than in the normal course of business. Our primary market risk exposures are interest rate risk and equity price risk as follows:

Interest Rate Risk. We are exposed to interest rate risk, primarily as it relates to the variable interest rates we are charged under credit agreements to which we are a party. As of December 31, 2012, our interest rate risk exposure was attributable to the Old Credit Agreement Loans under our senior secured credit facility. On February 14, 2013, we entered into the New Credit Agreement and repaid all amounts outstanding under the Old Credit Agreement Loans. The New Credit Agreement includes the New Term Loan and the New Revolving Facility, each of which are subject to variable interest rates and, as such, we remain subject to interest rate risk following the Refinancing. We use our variable rate debt to finance our operations and capital expenditures, and believe it is prudent to limit the variability of our interest payments on our variable rate debt. To meet this objective, from time to time, we may enter into interest rate swap agreements to manage fluctuations in cash flows resulting from interest rate risk. We do not hold or issue derivative financial instruments for trading or speculative purposes.

As of December 31, 2012, we were not a party to any interest rate swap agreements. Accordingly, our entire December 31, 2012 long-term debt balance of $957.0 million under the Old Credit Agreement Loans, representing 100% of our total debt, was subject to interest rate risk. Interest payments on the Old Term Loan were subject to a LIBOR floor of 2.00%, and while LIBOR remained below 2.00% we incurred interest costs above market rates. A change in interest rates would have materially affected our consolidated financial statements. For example, with the carrying value of our debt as of December 31, 2012, a 1% increase in the interest rate of our variable rate debt would have unfavorably impacted interest expense and pre-tax earnings by approximately $9.6 million. The New Term Loan is also subject to a LIBOR floor of 1.25%.

For further information regarding the New Credit Agreement, *see* "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources" and note (20) "Subsequent Events" to our consolidated financial statements in "Item 8. Financial Statements and Supplementary Data" included elsewhere in this Annual Report, as well as "Item 1A. Risk Factors— *We have substantial indebtedness which could have a negative impact on our financing options and liquidity position and prevent us from fulfilling our obligations under our indebtedness* " included elsewhere in this Annual Report for additional information relating to interest rate risk.

Equity Price Risk. We are also exposed to equity price risk from changes in the fair value of our qualified pension plan assets and from changes to rates at which benefit payments are discounted. For 2012 activity in our qualified pension plan assets, *see* note (9) "Employee Benefit Plans" to our consolidated financial statements in "Item 8. Financial Statements and Supplementary Data" included elsewhere in this Annual Report. Our qualified pension plan assets have historically funded a large portion of the benefits paid under our qualified pension plans. Payment of significant lump sum payments, lower returns on plan assets and lower discount rates could negatively impact the funded status of the plan and we may be required to make larger contributions to the pension plan than currently anticipated. Due to uncertainties in the pension funding calculation, the amount and timing of any other pension contributions are unknown.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

INDEX TO FINANCIAL STATEMENTS

Report of Management on Internal Control Over Financial Reporting

We, the management of FairPoint Communications, Inc., are responsible for establishing and maintaining adequate internal control over financial reporting of the Company. Management has evaluated internal control over financial reporting of the Company as of December 31, 2012 using the criteria for effective internal control established in *Internal Control–Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

Based on such evaluation, management determined that the Company's internal control over financial reporting was effective as of December 31, 2012.

Ernst & Young, LLP, our independent registered public accounting firm who audited the financial statements included in this Annual Report, has issued an attestation report on the Company's internal control over financial reporting. This report appears on the following page.

/s/ Paul H. Sunu

Paul H. Sunu
Chief Executive Officer

/s/ Ajay Sabherwal

Ajay Sabherwal
Executive Vice President and Chief Financial Officer

Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders of FairPoint Communications, Inc. and subsidiaries

We have audited FairPoint Communications, Inc. and subsidiaries' internal control over financial reporting as of December 31, 2012, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). FairPoint Communications, Inc. and subsidiaries' management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Report of Management on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, FairPoint Communications, Inc. and subsidiaries maintained, in all material respects, effective internal control over financial reporting as of December 31, 2012, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of FairPoint Communications, Inc. and subsidiaries as of December 31, 2012 and 2011, and the related consolidated statements of operations, comprehensive (loss) income, stockholders' equity (deficit) and cash flows for the year ended December 31, 2012, the period from January 25, 2011 to December 31, 2011, the period from January 1, 2011 to January 24, 2011 (Predecessor), and the year ended December 31, 2010 (Predecessor) and our report dated March 7, 2013 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

Charlotte, North Carolina
March 7, 2013

Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders of FairPoint Communications, Inc. and subsidiaries

We have audited the accompanying consolidated balance sheets of FairPoint Communications, Inc. and subsidiaries (the Company) as of December 31, 2012 and 2011, and the related consolidated statements of operations, comprehensive (loss) income, stockholders' equity (deficit) and cash flows for the year ended December 31, 2012, the period from January 25, 2011 to December 31, 2011, the period from January 1, 2011 to January 24, 2011 (Predecessor), and the year ended December 31, 2010 (Predecessor). These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of FairPoint Communications, Inc. and subsidiaries at December 31, 2012 and 2011, and the consolidated results of their operations and their cash flows for the year ended December 31, 2012, the period from January 25, 2011 to December 31, 2011, the period from January 1, 2011 to January 24, 2011 (Predecessor), and the year ended December 31, 2010 (Predecessor), in conformity with U.S. generally accepted accounting principles.

As discussed in Note 4 to the consolidated financial statements, on January 13, 2011, the Bankruptcy Court entered an order confirming the plan of reorganization, which became effective on January 24, 2011. Accordingly, the accompanying consolidated financial statements have been prepared in conformity with Accounting Standards Codification 852-10, Reorganizations, for the successor Company as a new entity with assets, liabilities and a capital structure having carrying amounts not comparable with prior periods as described in Note 4.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), FairPoint Communications, Inc. and subsidiaries' internal control over financial reporting as of December 31, 2012, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated March 7, 2013 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

Charlotte, North Carolina
March 7, 2013

FAIRPOINT COMMUNICATIONS, INC. AND SUBSIDIARIES
Consolidated Balance Sheets
December 31, 2012 and 2011
(in thousands, except share data)

	December 31, 2012	December 31, 2011
Assets:		
Cash	$ 23,203	$ 17,350
Restricted cash	6,818	24,446
Accounts receivable, net	86,999	100,324
Prepaid expenses	20,128	18,346
Other current assets	4,219	3,312
Deferred income tax, net	16,376	17,915
Assets held for sale	12,549	—
Total current assets	**170,292**	**181,693**
Property, plant and equipment, net	1,438,309	1,663,065
Intangible assets, net	116,992	128,145
Debt issue costs, net	1,111	1,779
Restricted cash	651	651
Other assets	5,006	10,338
Total assets	**$ 1,732,361**	**$ 1,985,671**
Liabilities and Stockholders' Deficit:		
Current portion of long-term debt	$ 10,000	$ 10,000
Current portion of capital lease obligations	1,220	1,252
Accounts payable	57,832	65,184
Claims payable and estimated claims accrual	1,282	22,839
Accrued interest payable	176	508
Other accrued liabilities	72,036	50,374
Liabilities held for sale	407	—
Total current liabilities	**142,953**	**150,157**
Capital lease obligations	1,470	2,690
Accrued pension obligation	203,537	157,961
Employee benefit obligations	619,108	531,634
Deferred income taxes	127,361	245,369
Other long-term liabilities	8,745	14,003
Long-term debt, net of current portion	947,000	990,000
Total long-term liabilities	**1,907,221**	**1,941,657**
Total liabilities	**2,050,174**	**2,091,814**
Commitments and contingencies (*See* Note 19)		
Stockholders' deficit:		
Common stock, $0.01 par value, 37,500,000 shares authorized, 26,288,998 and 26,197,142 shares issued and outstanding at December 31, 2012 and 2011, respectively	262	262
Additional paid-in capital	506,153	502,034
Retained deficit	(568,239)	(414,945)
Accumulated other comprehensive loss	(255,989)	(193,494)
Total stockholders' deficit	**(317,813)**	**(106,143)**
Total liabilities and stockholders' deficit	**$ 1,732,361**	**$ 1,985,671**

See accompanying notes to consolidated financial statements.

Table of Contents

FAIRPOINT COMMUNICATIONS, INC. AND SUBSIDIARIES
Consolidated Statements of Operations
Year Ended December 31, 2012, Three Hundred Forty-One Days Ended December 31, 2011, Twenty-Four Days Ended January 24, 2011 and Year Ended December 31, 2010
(in thousands, except per share data)

			Predecessor Company	
	Year Ended December 31, 2012	Three Hundred Forty-One Days Ended December 31, 2011	Twenty-Four Days Ended January 24, 2011	Year Ended December 31, 2010
Revenues	**$ 973,649**	**$ 963,112**	**$ 66,378**	**$ 1,070,986**
Operating expenses:				
Cost of services and sales, excluding depreciation and amortization	440,271	438,619	38,766	525,728
Selling, general and administrative expense, excluding depreciation and amortization	342,413	332,020	27,161	365,373
Depreciation and amortization	376,614	336,891	21,515	289,824
Reorganization related income	(3,666)	(232)	—	—
Impairment of intangible assets and goodwill	—	262,019	—	—
Total operating expenses	**1,155,632**	**1,369,317**	**87,442**	**1,180,925**
Loss from operations	**(181,983)**	**(406,205)**	**(21,064)**	**(109,939)**
Other income (expense):				
Interest expense	(67,610)	(63,807)	(9,321)	(140,896)
Other	739	1,791	(132)	2,715
Total other expense	(66,871)	(62,016)	(9,453)	(138,181)
Loss before reorganization items and income taxes	**(248,854)**	**(468,221)**	**(30,517)**	**(248,120)**
Reorganization items	—	—	897,313	(41,120)
(Loss) income before income taxes	**(248,854)**	**(468,221)**	**866,796**	**(289,240)**
Income tax benefit (expense)	95,560	53,276	(279,889)	7,661
Net (loss) income	**$ (153,294)**	**$ (414,945)**	**$ 586,907**	**$ (281,579)**
Weighted average shares outstanding:				
Basic	25,987	25,838	89,424	89,424
Diluted	25,987	25,838	89,695	89,424
(Loss) earnings per share:				
Basic	$ (5.90)	$ (16.06)	$ 6.56	$ (3.15)
Diluted	(5.90)	(16.06)	6.54	(3.15)

See accompanying notes to consolidated financial statements.

FAIRPOINT COMMUNICATIONS, INC. AND SUBSIDIARIES
Consolidated Statements of Comprehensive (Loss) Income
Year Ended December 31, 2012, Three Hundred Forty-One Days Ended December 31, 2011, Twenty-Four Days Ended January 24, 2011 and Year Ended December 31, 2010
(in thousands)

			Predecessor Company	
	Year Ended December 31, 2012	Three Hundred Forty-One Days Ended December 31, 2011	Twenty-Four Days Ended January 24, 2011	Year Ended December 31, 2010
Net (loss) income	**$ (153,294)**	**$ (414,945)**	**$ 586,907**	**$ (281,579)**
Other comprehensive (loss) income, net of taxes:				
Qualified pension and post-retirement healthcare plans (net of $19.7 million tax benefit, $39.1 million tax benefit, $0.5 million tax expense and $4.6 million tax expense, respectively)	(62,495)	(193,494)	493	(87,880)
Total other comprehensive income (loss)	**(62,495)**	**(193,494)**	**493**	**(87,880)**
Comprehensive (loss) income	**$ (215,789)**	**$ (608,439)**	**$ 587,400**	**$ (369,459)**

See accompanying notes to consolidated financial statements.

FAIRPOINT COMMUNICATIONS, INC. AND SUBSIDIARIES
Consolidated Statement of Stockholders' Equity (Deficit)
Year Ended December 31, 2012, Three Hundred Forty-One Days Ended December 31, 2011, Twenty-Four Days Ended January 24, 2011 and Year Ended December 31, 2010
(in thousands)

	Common Stock					
	Shares	Amount	Additional paid-in capital	Retained earnings (deficit)	Accumulated other comprehensive (loss) income	Total stockholders' equity (deficit)
Balance at December 31, 2009 (Predecessor Company)	**90,002**	**$ 900**	**$ 725,312**	**$ (819,715)**	**$ (124,924)**	**$ (218,427)**
Net loss	—	—	—	(281,579)	—	(281,579)
Restricted stock canceled for withholding tax	(13)	—	—	—	—	—
Forfeiture of restricted stock	(549)	(6)	6	—	—	—
Stock-based compensation expense	—	—	468	—	—	468
Employee benefit adjustment to comprehensive income	—	—	—	—	(87,880)	(87,880)
Balance at December 31, 2010 (Predecessor Company)	**89,440**	**$ 894**	**$ 725,786**	**$ (1,101,294)**	**$ (212,804)**	**$ (587,418)**
Net income	—	—	—	586,907	—	586,907
Stock-based compensation expense	—	—	18	—	—	18
Employee benefit adjustment to comprehensive income	—	—	—	—	493	493
Cancellation of Predecessor Company common stock	(89,440)	(894)	(725,804)	726,698	—	—
Elimination of Predecessor Company accumulated other comprehensive loss	—	—	—	(212,311)	212,311	—
Issuance of Common Stock	25,660	257	481,879	—	—	482,136
Issuance of Warrants	—	—	16,350	—	—	16,350
Balance at January 24, 2011	**25,660**	**$ 257**	**$ 498,229**	**$ —**	**$ —**	**$ 498,486**
Net loss	—	—	—	(414,945)	—	(414,945)
Issuance of Common Stock	541	5	(5)	—	—	—
Issuance of restricted stock	14	—	—	—	—	—
Forfeiture of restricted stock	(18)	—	—	—	—	—
Stock-based compensation expense	—	—	3,810	—	—	3,810
Employee benefit adjustment to comprehensive income	—	—	—	—	(193,494)	(193,494)
Balance at December 31, 2011	**26,197**	**$ 262**	**$ 502,034**	**$ (414,945)**	**$ (193,494)**	**$ (106,143)**
Net loss	—	—	—	(153,294)	—	(153,294)
Issuance of Common Stock	100	—	—	—	—	—
Forfeiture of restricted stock	(22)	—	—	—	—	—
Exercise of stock options	14	—	64	—	—	64
Stock-based compensation expense	—	—	4,055	—	—	4,055
Employee benefit adjustment to comprehensive income	—	—	—	—	(62,495)	(62,495)
Balance at December 31, 2012	**26,289**	**$ 262**	**$ 506,153**	**$ (568,239)**	**$ (255,989)**	**$ (317,813)**

See accompanying notes to consolidated financial statements.

FAIRPOINT COMMUNICATIONS, INC. AND SUBSIDIARIES
Consolidated Statements of Cash Flows
Year Ended December 31, 2012, Three Hundred Forty-One Days Ended December 31, 2011, Twenty-Four Days Ended January 24, 2011 and Year Ended December 31, 2010
(in thousands)

			Predecessor Company	
	Year Ended December 31, 2012	Three Hundred Forty-One Days Ended December 31, 2011	Twenty-Four Days Ended January 24, 2011	Year Ended December 31, 2010
Cash flows from operating activities:				
Net (loss) income	**$ (153,294)**	**$ (414,945)**	**$ 586,907**	**$ (281,579)**
Adjustments to reconcile net income to net cash provided by (used in) operating activities:				
Deferred income taxes	(96,778)	(52,203)	279,868	(7,915)
Provision for uncollectible revenue	7,506	18,344	3,454	20,525
Depreciation and amortization	376,614	336,891	21,515	289,824
Post-retirement healthcare	47,692	35,183	2,654	33,216
Qualified pension	(42)	5,021	986	10,017
Loss on abandoned projects	2,862	—	—	15,132
Impairment of intangible assets and goodwill	—	262,019	—	—
Other non-cash items	866	(288)	97	4,045
Changes in assets and liabilities arising from operations:				
Accounts receivable	9,587	7,863	(7,752)	12,706
Prepaid and other assets	(3,301)	(1,926)	(3,423)	(6,834)
Restricted cash	(6,164)	—	—	—
Accounts payable and accrued liabilities	3,364	(12,303)	26,627	(10,802)
Accrued interest payable	(332)	508	9,017	137,111
Other assets and liabilities, net	(4,198)	67	177	(3,816)
Reorganization adjustments:				
Non-cash reorganization income	(5,002)	(7,308)	(917,358)	(20,004)
Claims payable and estimated claims accrual	(8,824)	(66,712)	(1,096)	—
Restricted cash—Cash Claims Reserve	22,219	59,888	(82,764)	—
Total adjustments	**346,069**	**585,044**	**(667,998)**	**473,205**
Net cash provided by (used in) operating activities	**192,775**	**170,099**	**(81,091)**	**191,626**
Cash flows from investing activities:				
Net capital additions	(145,066)	(163,648)	(12,477)	(197,795)
Distributions from investments	759	798	—	527
Net cash used in investing activities	**(144,307)**	**(162,850)**	**(12,477)**	**(197,268)**
Cash flows from financing activities:				
Loan origination costs	—	(884)	(1,500)	(1,475)
Proceeds from issuance of long-term debt	—	—	—	5,513
Repayments of long-term debt	(43,000)	—	—	—
Restricted cash	1,573	1,843	34	(62)
Proceeds from exercise of stock options	64	—	—	—
Repayment of capital lease obligations	(1,252)	(1,120)	(201)	(2,192)
Net cash (used in) provided by financing activities	**(42,615)**	**(161)**	**(1,667)**	**1,784**
Net change	**5,853**	**7,088**	**(95,235)**	**(3,858)**
Cash, beginning of period	17,350	10,262	105,497	109,355
Cash, end of period	**$ 23,203**	**$ 17,350**	**$ 10,262**	**$ 105,497**

See accompanying notes to consolidated financial statements.

	Year Ended December 31, 2012	Three Hundred Forty-One Days Ended December 31, 2011	Predecessor Company: Twenty-Four Days Ended January 24, 2011	Predecessor Company: Year Ended December 31, 2010
Supplemental disclosure of cash flow information:				
Interest paid, net of capitalized interest	$ 66,619	$ 62,290	$ —	$ 1,005
Income tax paid, net of refunds	562	218	—	361
Capital additions included in accounts payable, claims payable and estimated claims accrual or liabilities subject to compromise at period-end	—	854	1,818	1,961
Reorganization costs paid	1,197	20,069	11,110	41,699
Non-cash settlement of claims payable	7,668	—	—	—

See accompanying notes to consolidated financial statements.

FAIRPOINT COMMUNICATIONS, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements

Except as otherwise required by the context, references in notes to the consolidated financial statements to:

- *"FairPoint Communications" refers to FairPoint Communications, Inc., excluding its subsidiaries.*
- *"FairPoint" or the "Company" refer to the combined business of FairPoint Communications, Inc. and all of its subsidiaries after giving effect to the merger on March 31, 2008 with Northern New England Spinco Inc. ("Spinco"), a subsidiary of Verizon Communications Inc. ("Verizon"), which transaction is referred to herein as the "Merger".*
- *"Northern New England operations" refers to the local exchange business acquired from Verizon and certain of its subsidiaries after giving effect to the Merger.*
- *"Telecom Group" refers to FairPoint, exclusive of our acquired Northern New England operations.*
- *"Predecessor Company" refers to all periods as of and preceding the Effective Date (as defined hereinafter).*

(1) Organization and Principles of Consolidation

Organization

FairPoint is a leading provider of advanced communications services to business, wholesale and residential customers within its service territories. FairPoint offers its customers a suite of advanced data services such as Ethernet, high capacity data transport and other IP-based services over a ubiquitous, next-generation fiber network with more than 15,000 route miles in addition to Internet access, high-speed data ("HSD") and local and long distance voice services. FairPoint is the incumbent communications provider in the markets it serves, primarily rural communities and small urban markets. Many of its local exchange carriers ("LECs") have served their respective communities for more than 80 years. As of December 31, 2012, the Company's service territory spanned 18 states and operated with approximately 1.3 million access line equivalents in service, including approximately 326 thousand broadband subscribers. On January 31, 2013, the Company completed the sale of its operations in Idaho whereby its service territory now spans 17 states and, on a pro forma basis after giving effect to the divestiture, still would have operated with approximately 1.3 million access line equivalents in service as of December 31, 2012. For further information on the sale of the Idaho operations, *see* notes (18) "Asset Held for Sale" and (20) "Subsequent Events" herein.

Principles of Consolidation

The consolidated financial statements include all majority-owned subsidiaries of the Company. Partially owned equity affiliates are accounted for under the cost method or equity method when the Company demonstrates significant influence, but does not have a controlling financial interest. Intercompany accounts and transactions have been eliminated.

(2) Summary of Significant Accounting Policies

(a) Presentation and Use of Estimates

The accompanying consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States ("U.S. GAAP"), which require management to make estimates and assumptions that affect reported amounts and disclosures. Actual results could differ from those estimates. The consolidated financial statements reflect all adjustments that, in the opinion of management, are necessary for a fair presentation of results of operations and financial condition for the periods shown, including normal recurring accruals and other items.

The Company has reclassified certain prior period amounts in the December 31, 2011 consolidated balance sheet to be consistent with current period presentation. This reclassification was made to reflect certain customer rebates as contra-accounts receivable and resulted in a $4.0 million decrease to other accrued liabilities and a corresponding decrease to net accounts receivable, respectively. Correction of this classification error had no impact to the consolidated statement of operations.

Examples of significant estimates include the allowance for doubtful accounts, revenue reserves, the recoverability of plant, property and equipment, valuation of long-lived assets, qualified pension and post-retirement healthcare plan assumptions, stock-based compensation and income taxes.

(b) Revenue Recognition

Revenues are recognized as services are rendered and are primarily derived from the usage of the Company's networks and facilities or under revenue-sharing arrangements with other communications carriers. Revenues are primarily derived from: voice services, access (including pooling), Connect America Fund (CAF) receipts, Internet and broadband services and other miscellaneous services. Local access charges are billed to local end users under tariffs approved by each state's Public Utilities Commission ("PUC") or by rates, terms and conditions determined by the Company. Access revenues are derived for the intrastate jurisdiction by billing access charges to interexchange carriers and to other LECs. These charges are billed based on toll or access tariffs approved by the local state's PUC. Access charges for the interstate jurisdiction are billed in accordance with tariffs filed by the National Exchange Carrier Association (NECA) or by the individual company and approved by the Federal Communications Commission (the "FCC").

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

Long distance retail and wholesale services can be recurring due to coverage under an unlimited calling plan or usage sensitive. In either case, they are billed in arrears and recognized when earned. Internet and data services revenues are substantially all recurring revenues and are billed one month in advance and deferred until earned.

As of December 31, 2012 and 2011, unearned revenue of $18.3 million and $17.0 million, respectively, was included in current other accrued liabilities on the consolidated balance sheets.

The majority of the Company's other miscellaneous services revenue is generated from ancillary special projects at the request third parties, video services, directory services and late payment charges to end users and interexchange carriers. The Company requires customers to pay for ancillary special projects in advance. As of December 31, 2012 and 2011, customer deposits of $10.5 million and $9.8 million, respectively, were included in current other accrued liabilities on the consolidated balance sheets. Once the ancillary special project is completed and all project costs have been accumulated for proper accounting recognition, the advance payment is recognized as revenue with any over payments refunded to the customer as appropriate. The Company recognizes revenue upon the provision of video services in certain markets by reselling DirecTV content and providing cable and IP television video-over-digital subscriber line services. The Company also publishes telephone directories in some of its markets and recognizes revenues associated with these publications. The Company bills late payment fees to customers who have not paid their bills in a timely manner. In general, late fee revenue is recognized as it is collected.

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

The Company is subject to retail service quality plans in the states of Maine, New Hampshire and Vermont pursuant to which service quality index ("SQI") penalties are imposed upon the Company's failure to meet the requirements of the respective plans. Penalties resulting from these commitments are recorded as a reduction to revenue and to current other accrued liabilities on the consolidated balance sheets. The Company also adopted a separate performance assurance plan ("PAP") for certain services provided on a wholesale basis to competitive local exchange carriers ("CLECs") in each of the states of Maine, New Hampshire and Vermont, pursuant to which FairPoint is required to provide performance credits in the event the Company is unable to meet the provisions of the respective PAP. Penalties resulting from these commitments are recorded as a reduction to revenue. In Maine and New Hampshire, these penalties are recorded as a reduction to accounts receivable since they are paid by the Company in the form of credits applied to CLEC bills. PAP penalties in Vermont are recorded to other accrued liabilities as a majority of these penalties are paid to the Vermont Universal Service Fund ("VUSF"), while the remaining credits assessed in Vermont are paid by the Company in the form of credits applied to CLEC bills.

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

Management makes estimated adjustments, as necessary, to revenue or accounts receivable for billing errors, including certain disputed amounts.

(c) Cash and Cash Equivalents

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

(d) Accounts Receivable

Accounts receivable are recorded at the invoiced amount and do not bear interest. The allowance for doubtful accounts is recorded as a contra-asset of accounts receivable and represents the Company's best estimate of probable credit losses in the Company's existing accounts receivable. The Company establishes an allowance for doubtful accounts based upon factors surrounding the credit risk of specific customers, historical trends, and other information. Accounts receivable balances are reviewed on an aged basis and account balances are written off against the allowance after all means of collection have been exhausted and the potential for recovery is considered remote.

The following is activity in the Company's allowance for doubtful accounts receivable for the year ended December 31, 2012, the 341 days ended December 31, 2011, the 24 days ended January 24, 2011 and the year ended December 31, 2010 (in thousands):

			Predecessor Company	
	Year Ended December 31, 2012	Three Hundred Forty-One Days Ended December 31, 2011	Twenty-Four Days Ended January 24, 2011	Year ended December 31, 2010
Balance, beginning of period	**$ 11,497**	**$ —**	**$ 40,608**	**$ 58,358**
Provision charged to expense	7,506	18,344	3,454	20,525
Provision charged to other accounts [a]	(341)	(129)	(159)	(586)
Amounts written off, net of recoveries [b]	211	(6,718)	(2,566)	(37,689)
Asset held for sale adjustment	(10)	—	—	—
Fresh start accounting adjustment	—	—	(41,337)	—
Balance, end of period	**$ 18,863**	**$ 11,497**	**$ —**	**$ 40,608**

(a) Provision charged to other accounts includes accruals charged to accounts payable for anticipated uncollectible charges on purchase of accounts receivable from others which were billed by the Company.

(b) Net recoveries for the year ended December 31, 2012 are primarily due to settlements with wholesale carriers for accounts receivable previously reserved as uncollectible.

(e) Credit Risk

Financial instruments, which potentially subject the Company to concentrations of credit risk, consist principally of cash and gross accounts receivable existing at December 31, 2012. The Company places its cash with high-quality financial institutions. Concentrations of credit risk with respect to accounts receivable are principally related to trade receivables from other interexchange carriers and are otherwise limited to the Company's large number of customers in several states.

The Company sponsors qualified pension plans for certain employees. Plan assets associated with these qualified pension plans are held by third party trustees and investments are comprised of debt and equity securities. The fair value of these plan assets is dependent on the financial condition of those entities issuing the debt and equity securities. A significant decline in the fair value of plan assets could result in additional Company contributions to the qualified pension plans in order to meet funding requirements under the Employee Retirement Income Security Act of 1974, as amended ("ERISA"). For additional information regarding the plan assets of the Company's qualified pension plans, including the December 31, 2012 balance at risk, *see* note (9) "Employee Benefit Plans" herein.

(f) Property, Plant and Equipment

In connection with the Company's adoption of fresh start accounting on the Effective Date (as defined hereinafter in note (4) "Reorganization Under Chapter 11"), accumulated depreciation was reset to zero and the net carrying value of the Company's existing property, plant and equipment assets were revalued to their fair value, generally their appraised value after considering economic obsolescence. New remaining useful asset lives were established for each asset ranging from two to twenty-three years.

Property, plant and equipment additions are recorded at cost with the following estimated useful asset lives:

Category	Average Life (In Years)
Buildings	40
Central office equipment	7-10
Outside communications plant	15-35
Furniture, vehicles and other	5-15

Given that a majority of the Company's property, plant and equipment is plant used in the Company's wireline and next generation networks, depreciation is principally based on the composite group remaining life method and straight-line composite rates. This methodology provides for the recognition of the cost of the remaining net investment in telephone plant, property and equipment less anticipated positive net salvage value, over the remaining asset lives. When depreciable telephone plant is replaced or retired, the carrying amount of such plant is deducted from the respective accounts and charged to accumulated depreciation. No gain or loss is recognized on disposition of assets. Use of this methodology requires the periodic revision of depreciation rates. In the evaluation of asset lives, multiple factors are considered, including, but not limited to, the ongoing network deployment, technology upgrades and enhancements, planned retirements and the adequacy of reserves. The Company utilizes straight-line depreciation for its non-telephone property, plant and equipment.

In 2012, with the assistance of outside expertise, the Company completed an analysis of the depreciable lives of assets held for certain subsidiaries, the results of which determined that the Company's current depreciable lives are appropriate.

Network software purchased or developed in connection with related plant assets is capitalized. The Company also capitalizes interest associated with the acquisition or construction of network related assets. Capitalized interest is reported as part of the cost of the network related assets and as a reduction in interest expense. *See* "—(h) Computer Software and Interest Costs" herein for additional information.

(g) Long-Lived Assets

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

Given the significant sustained decline in the Company's stock price since the Effective Date (as defined hereinafter in note (4) "Reorganization Under Chapter 11") which had caused the Company's market capitalization to be below its book value and the September 30, 2011 impairment of goodwill and the FairPoint trade name, the Company determined that a possible impairment of long-lived assets was present as of September 30, 2011. However, the Company concluded that its long-lived assets at September 30, 2011 were recoverable based on the fact that the Company's gross cash flows were greater than the carrying value.

As of December 31, 2012, the Company performed its routine review of impairment triggering events specified by the Property, Plant and Equipment Topic of the ASC and concluded that it does not believe a triggering event has occurred.

(h) Computer Software and Interest Costs

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

Subsequent additions, modifications or upgrades to internal-use software are capitalized only to the extent that they allow the software to perform a task it previously did not perform. Software maintenance and training costs are expensed in the period in which they are incurred.

In addition, the Company capitalizes the interest cost associated with the period of time over which the Company's internal use software is developed or obtained in accordance with the Interest Topic of the ASC. The Company did not capitalize interest costs incurred during the pendency of the Chapter 11 Cases (as defined hereinafter in note (4) "Reorganization Under Chapter 11"), as payments on all interest obligations had been stayed as a result of the filing of the Chapter 11 Cases (as defined hereinafter in note (4) "Reorganization Under Chapter 11"). Upon entry into the Old Credit Agreement (as defined hereinafter in note (4)

"Reorganization Under Chapter 11") on the Effective Date (as defined hereinafter in note (4) "Reorganization Under Chapter 11"), the Company resumed capitalization of interest costs.

During the year ended December 31, 2012, the 341 days ended December 31, 2011 and the 24 days ended January 24, 2011, the Company capitalized $9.5 million, $12.1 million and $1.3 million, respectively, in software costs and $0.1 million and $0.2 million, respectively, in interest costs for the year ended December 31, 2012 and the 341 days ended December 31, 2011. No interest costs were capitalized for the 24 days ended January 24, 2011.

As of the year ended December 31, 2012, the gross value and accumulated depreciation of the capitalized software was $114.4 million and $87.9 million, respectively. As of the year ended December 31, 2011, the gross value and accumulated depreciation of the capitalized software was $107.0 million and $41.3 million, respectively. During the year ended December 31, 2012, the 341 days ended December 31, 2011, the 24 days ended January 24, 2011 and the year ended December 31, 2010, amortization expense on the capitalized software was $47.2 million, $41.3 million, $2.9 million and $43.0 million, respectively, and is expected to be $18.5 million in 2013, $3.1 million in 2014, $3.1 million in 2015, $1.8 million in 2016 and $0.0 million in 2017, respectively.

Upon the Effective Date (as defined hereinafter in note (4) "Reorganization Under Chapter 11"), a fresh start adjustment of $29.7 million was made to record capitalized software at its estimated fair value.

(i) Impairment of Goodwill and Other Intangible Assets

Goodwill. Upon the Effective Date (as defined hereinafter in note (4) "Reorganization Under Chapter 11"), the Company's goodwill consisted of the difference between the reorganization value of the Predecessor Company and the fair value of net assets using the acquisition method of accounting for business combinations in the Business Combinations Topic of the ASC. In accordance with the Intangibles—Goodwill and Other Topic of the ASC, goodwill was not amortized, but was assessed for impairment at least annually. The Company historically performed its annual impairment test as of the first day of the fourth fiscal quarter of each year. At September 30, 2011, the Company wrote off the entire balance of goodwill. *See* note (6) "Goodwill and Other Intangible Assets" herein for further information on the impairment test and write-off.

Indefinite-lived Intangible Asset. In accordance with the Intangibles—Goodwill and Other Topic of the ASC, non-amortizable intangible assets are assessed for impairment at least annually. The Company performs its annual impairment test as of the first day of the fourth fiscal quarter of each year and assesses the fair value of the trade name based on the relief from royalty method. If the carrying amount of the trade name exceeds its estimated fair value, the asset is considered impaired.

For its non-amortizable intangible asset impairment assessments of the FairPoint trade name, the Company makes certain assumptions including an estimated royalty rate, a long-term growth rate, an effective tax rate and a discount rate, and applies these assumptions to projected future cash flows, exclusive of cash flows associated with wholesale revenues as these revenues are not generated through brand recognition. Changes in one or more of these assumptions may result in the recognition of an impairment loss different from what was actually recorded.

Amortizable Intangible Assets. Amortizable intangible assets must be reviewed for impairment as part of long-lived assets whenever indicators of impairment exist. *See* "—(g) Long-Lived Assets" herein for additional information.

(j) Accounting for Income Taxes

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

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

FairPoint files a consolidated income tax return with its subsidiaries. All intercompany tax transactions and accounts have been eliminated in consolidation.

(k) Stock-Based Compensation

The Company accounts for its stock-based compensation plan in accordance with the Compensation—Stock Compensation Topic of the ASC, which establishes accounting for stock-based awards granted in exchange for employee services. Accordingly, for employee awards which are expected to vest, stock-based compensation cost is measured at the grant date, based on the fair value of the award, and is recognized as expense on a straight-line basis over the requisite service period, which generally begins on the date the award is granted through the date the award vests. Compensation expense associated with the stock-based compensation plan is included in other non-cash items on the consolidated statement of cash flows.

(l) Employee Benefit Plans

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

(m) Fair Value Measurements

The Fair Value Measurements and Disclosures Topic of the ASC defines fair value, establishes a framework for measuring fair value and establishes a hierarchy that categorizes and prioritizes the sources to be used to estimate fair value. The Fair Value Measurements and Disclosures Topic of the ASC also expands financial statement disclosures about fair value measurements.

In determining fair value, the Company uses a hierarchy for inputs used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the most observable inputs be used when available. The hierarchy is broken down into three levels based on the reliability of inputs as follows:

Level 1 – Valuations based on quoted prices in active markets for identical assets or liabilities that the Company has the ability to access.

Level 2 – Valuations based on quoted prices in markets that are not active or for which all significant inputs are observable, either directly or indirectly.

Level 3 – Valuations based on inputs that are unobservable and significant to the overall fair value measurement.

The Company's non-financial assets and liabilities, including its long-lived assets and indefinite-lived intangible assets, are measured and subsequently adjusted, if necessary, to fair value on a non-recurring basis. A routine review of triggering events and/or results of the annual impairment test, as applicable, did not require an adjustment to fair value to be recorded in 2012. For additional information *See* "—(g) Long-Lived Assets" herein and note (6) "Goodwill and Other Intangible Assets—Indefinite-lived Intangible Asset" herein.

The Company's financial instruments consist primarily of cash, restricted cash, accounts receivable, accounts payable and long-term debt. The carrying amounts of all of the Company's financial instruments, with the exception of its long-term debt, are estimated to approximate fair value due to the relatively short period of time to maturity for those instruments. Long-term debt is not carried at fair value, but measured on a recurring basis. For the fair value of long-term debt, *see* note (8) "Long-term Debt" herein.

(n) Business Segments

Management views its business of providing data, video and voice communication services to residential, wholesale and business customers as one reportable segment as defined in the Segment Reporting Topic of the ASC. The Company's services consists of retail and wholesale telecommunications and data services, including voice and HSD in 18 states (prior to the 2013 sale of our operations in Idaho). The Company's chief operating decision maker assesses operating performance and allocates resources based on the consolidated results.

(o) Other Liabilities

Accrued Bonuses. As of December 31, 2012 and 2011, accrued bonuses of $13.2 million and $0.7 million, respectively, were included in current other accrued liabilities on the consolidated balance sheets.

Unfavorable intangible assets. On the Effective Date (as defined hereinafter in note (4) "Reorganization Under Chapter 11"), the Company recorded $13.0 million in unfavorable union contracts and $0.7 million in unfavorable leasehold agreements, each of which resulted from agreements with contract rates in excess of market value rates as of the Effective Date (as defined hereinafter in note (4) "Reorganization Under Chapter 11"). Amortization is recognized on a straight-line basis over the remaining term of the agreements, ranging from 1 to 7 years, as a reduction of employee expense and rent expense within operating expenses.

(p) Advertising Costs

Advertising costs are expensed as they are incurred.

(3) Recent Accounting Pronouncements

In February 2013, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2013-02 related to disclosure of reclassifications out of accumulated other comprehensive income. This ASU requires companies to report, in one place, information about reclassifications out of accumulated other comprehensive income. In addition, it also requires companies to report changes in accumulated other comprehensive income balances. This new guidance is to be applied prospectively and effective for interim and annual periods beginning after December 15, 2012, with early adoption permitted. The Company will adopt this ASU during the quarter ended March 31, 2013 and does not expect the adoption to have a material impact on the Company's consolidated financial statements.

In July 2012, the FASB issued ASU 2012-02 to amend and simplify the annual testing for impairment of indefinite-lived intangible assets. This amendment to the Intangibles—Goodwill and Other Topic of the ASC allows an entity the option to first assess qualitative factors to determine whether the existence of events and circumstances that could affect significant inputs used to determine the fair value of the indefinite-lived intangible asset leads to a determination that it is more likely than not that the indefinite-lived intangible asset is impaired. If, after assessing the totality of events and circumstances, an entity determines it is not likely that the indefinite-lived intangible asset is impaired, then performing the quantitative impairment test is unnecessary. However, if an entity concludes otherwise, then it is required to perform a quantitative impairment test. The ASU includes examples of events and circumstances that could affect significant inputs used to determine the fair value of the indefinite-lived intangible assets that an entity should consider when evaluating whether it is more likely than not that an indefinite-lived intangible asset is impaired. This new guidance is effective for annual and interim impairment tests performed for fiscal years beginning after September 15, 2012, with early adoption permitted. The Company elected to early adopt this ASU during the quarter ended September 30, 2012. The adoption of this amendment to the ASC did not have a material impact on the Company's consolidated financial statements.

In June 2011, the FASB issued ASU 2011-05 related to the presentation of comprehensive income, which eliminates the option to present the components of other comprehensive income as part of the statement of changes in stockholders' equity. This ASU requires that all non-owner changes in stockholders' equity be presented in either a single continuous statement of comprehensive income or in two separate but consecutive statements. This new guidance was to be applied retrospectively, effective for interim and annual periods beginning after December 15, 2011, with early adoption permitted. In December 2011, the FASB issued ASU 2011-12 which deferred the elective date for amendments to the presentation of reclassification of items out of accumulated other comprehensive income in ASU 2011-05. The adoption of this amendment to the ASC did not have a material impact on the Company's consolidated financial statements.

In May 2011, the FASB issued ASU 2011-04 related to achieving common fair value measurements and disclosure requirements between U.S. GAAP and International Financial Reporting Standards ("IFRS"). This ASU changes the wording used to describe many of the requirements in U.S. GAAP for measuring fair value and for disclosing information about fair value measurements to ensure consistency between U.S. GAAP and IFRS. The ASU also expands the disclosures for fair value measurements that are estimated using significant unobservable (Level 3) inputs, as defined in the Fair Value Measurement Topic of the ASC. This new guidance was to be applied prospectively, effective for interim and annual periods beginning after December 15, 2011. Early adoption was not permitted. The adoption of this amendment to the ASC did not have a material impact on the Company's consolidated financial statements.

(4) Reorganization Under Chapter 11

Emergence from Chapter 11 Proceedings

On October 26, 2009 (the "Petition Date"), the Company and substantially all of its direct and indirect subsidiaries filed voluntary petitions for relief under chapter 11 of title 11 of the United States Code (the "Bankruptcy Code" or "Chapter 11") in the United States Bankruptcy Court for the Southern District of New York (the "Bankruptcy Court"). The cases were being jointly administered under the caption *In re FairPoint Communications, Inc.*, Case No. 09-16335 (the "Chapter 11 Cases"). On January 13, 2011, the bankruptcy judge entered into an order dated as of December 29, 2010 (the "Confirmation Order") confirming the

Company's Third Amended Joint Plan of Reorganization Under Chapter 11 of the Bankruptcy Code (as confirmed, the "Plan") and on January 24, 2011 (the "Effective Date") the Company emerged from Chapter 11 protection.

On the Effective Date, the Company substantially consummated its reorganization through a series of transactions contemplated by the Plan and the Plan became effective pursuant to its terms.

The Plan provided for, among other things:

(i) the cancellation and extinguishment on the Effective Date of all of the Company's equity interests outstanding on or prior to the Effective Date, including but not limited to all outstanding shares of the Company's common stock, par value $0.01 per share, options and contractual or other rights to acquire any equity interests,

(ii) the issuance of shares of the Company's new common stock, par value $0.01 per share (the "Common Stock"), and the issuance of warrants ("Warrants") to purchase shares of the Company's Common Stock to holders of certain claims in connection with a warrant agreement that the Company entered into with the Bank of New York Mellon, as the warrant agent, on the Effective Date (the "Warrant Agreement"),

(iii) the satisfaction of claims associated with

(a) the credit agreement, dated as of March 31, 2008, by and among FairPoint Communications, Spinco, Bank of America, N.A., as syndication agent, Morgan Stanley Senior Funding, Inc. and Deutsche Bank Securities Inc., as co-documentation agents, and Lehman Commercial Paper Inc., as administrative agent, and the lenders party thereto (as amended, supplemented or otherwise modified from time to time, the "Pre-Petition Credit Facility"),

(b) the 13-1/8% Senior Notes due April 1, 2018 (the "Old 13-1/8% Notes"), which were issued pursuant to the indenture, dated as of March 31, 2008, by and between Spinco and U.S. Bank National Association, as amended, and

(c) the 13-1/8% Senior Notes due April 2, 2018 (together with the Old 13-1/8% Notes, the "Pre-Petition Notes"), which were issued pursuant to the indenture, dated as of July 29, 2009, by and between FairPoint Communications and U.S. Bank National Association and

(iv) the termination by its conversion into the Old Revolving Facility (as defined herein) of the Debtor-in-Possession Credit Agreement, dated as of October 27, 2009 (as amended, the "DIP Credit Agreement"), by and among FairPoint Communications and FairPoint Logistics, Inc. ("FairPoint Logistics"), certain financial institutions and Bank of America, N.A., as the administrative agent.

The Company's Common Stock began trading on the Nasdaq Stock Market LLC on January 25, 2011. In addition, on the Effective Date, FairPoint Communications and FairPoint Logistics (collectively, the "Old Credit Agreement Borrowers") entered into a $1,075.0 million senior secured credit facility with a syndicate of lenders and Bank of America, N.A., as the administrative agent for the lenders, arranged by Banc of America Securities LLC (the "Old Credit Agreement") comprised of a $75 million revolving facility (the "Old Revolving Facility") and a $1.0 billion term loan facility (the "Old Term Loan", and together with the Old Revolving Facility, the "Old Credit Agreement Loans").

In connection with the Chapter 11 Cases, the Company also negotiated with representatives of the state regulatory authorities in Maine, New Hampshire and Vermont with respect to (i) certain regulatory approvals relating to the Chapter 11 Cases and the Plan and (ii) certain modifications to the requirements imposed by state regulatory authorities as a condition to approval of the Merger (each a "Merger Order", and collectively, the "Merger Orders"). The Company agreed to regulatory settlements with the representatives for each of Maine, New Hampshire and Vermont regarding modification of each state's Merger Order which were then approved by the regulatory authorities in those states. Pursuant to the regulatory settlements, we committed to, among other things, expand our broadband coverage and comply with certain capital expenditures and corporate governance requirements. The commitments agreed to in these proceedings have, for the most part, been completed, are nearly complete, or are no longer applicable. In addition, new legislation signed into law in 2012 in both Maine and New Hampshire will eliminate many of the state specific Merger conditions.

On June 30, 2011 and on November 7, 2012, the Bankruptcy Court entered final decrees closing certain of the Company's bankruptcy cases due to such cases being fully administered. Of the 80 original bankruptcy cases, only the Chapter 11 Case of Northern New England Telephone Operations LLC (Case No. 09-16365) remains open.

Financial Reporting in Reorganization

The Company applied the Reorganizations Topic of the ASC effective as of the Petition Date. The Reorganizations Topic of the ASC, which is applicable to companies in Chapter 11, generally does not change the manner in which financial statements are prepared. However, it does require that the financial statements for periods subsequent to the filing of the Chapter 11 Cases distinguish transactions and events that are directly associated with the reorganization from the ongoing operations of the business. Amounts that can be directly associated with the reorganization and restructuring of the business after the Petition Date must be reported separately as reorganization items in the statements of operations. In addition, cash provided by and used for reorganization items must be disclosed separately.

The Company's consolidated statement of operations for the twenty-four days ended January 24, 2011 includes the results of operations during the Chapter 11 Cases. As such, any revenues, expenses, and gains and losses realized or incurred that are directly related to the bankruptcy case are reported separately as reorganization items due to the bankruptcy.

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

	Predecessor Company	
	Twenty-Four Days Ended January 24, 2011	Year Ended December 31, 2010
Professional fees (a)	$ (13,965)	$ (59,870)
Success bonus (b)	—	(1,111)
Non-cash allowed claim adjustments (c)	—	(977)
Cancellation of debt income (d)	1,351,057	20,838
Goodwill adjustment (e)	(351,931)	—
Intangible assets adjustment (e)	(30,381)	—
Property, plant and equipment adjustment (e)	(56,258)	—
Pension and post-retirement healthcare adjustment (e)	22,076	—
Other assets and liabilities adjustment (e)	(16,037)	—
Tax account adjustments (e)	4,313	—
Other (f)	(11,561)	—
Total reorganization items	**$ 897,313**	**$ (41,120)**

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

(b) Success bonus represents charges incurred relating to the FairPoint Communications, Inc. 2010 Success Bonus Plan in accordance with the plan of reorganization.

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

(d) Net gains and losses associated with the settlement of liabilities subject to compromise, of which $1,351,055 was recognized on the Effective Date.

(e) Revaluation of long-lived assets and certain assets and liabilities upon adoption of fresh start accounting.

(f) Includes expenses associated with the Long Term Incentive Plan (as defined hereinafter in note (14) "Stock-Based Compensation") adopted as part of the Plan, the FairPoint Litigation Trust entered into as part of the Plan and the write-off of the Predecessor Company's long term incentive plans and director and officer policy.

After the Effective Date, income or expense amounts recognized as a result of settling outstanding bankruptcy claims and professional fees directly associated with the reorganization process are included in operating expenses as Reorganization related expense in the consolidated statements of operations.

Magnitude of Potential Claims

As of February 28, 2013, claims totaling $4.9 billion were filed with the Bankruptcy Court against the Company. Through the claim resolution process, $3.8 billion of these claims have been settled and $1.1 billion of these claims have been disallowed by the Bankruptcy Court. Additionally, $10.1 million of these claims have been withdrawn by the respective creditors and $5.5 million of these claims remain open, pending completion of settlements or resolution of pending court proceedings.

On the Effective Date, the Company distributed cash, entered into the Old Credit Agreement, and issued shares of Common Stock and Warrants to satisfy $2.8 billion of claims. In addition, on the Effective Date, the Company established a reserve for payment of outstanding bankruptcy claims (the "Cash Claims Reserve") of $82.8 million and a reserve of 610,309 shares of Common Stock and Warrants to purchase 124,012 shares of Common Stock for satisfaction of pending claims (the "Equity Claims Reserve"). Subsequent to the Effective Date, the Company has made distributions from its Cash Claims Reserve and Equity Claims

Reserve to satisfy claims as they are resolved. As a result of these distributions, as of December 31, 2012, all of the shares of Common Stock and Warrants in the Equity Claims Reserve have been distributed in full satisfaction of allowed claims, thereby completing the Common Stock and Warrant distribution with respect to the Plan. As of February 28, 2013, the Cash Claim Reserve includes a balance of $0.7 million to settle outstanding bankruptcy claims.

Fresh Start Accounting

Upon confirmation of the Plan by the Bankruptcy Court and satisfaction of the remaining material contingencies to complete the implementation of the Plan, under the Reorganizations Topic of the ASC, the Company was required to apply the provisions of fresh start accounting to its financial statements on the Effective Date because (i) the reorganization value of the assets of the emerging entity immediately before the date of confirmation was less than the total of all post-petition liabilities and allowed claims and (ii) the holders of the existing voting shares of the Predecessor Company's common stock immediately before confirmation received less than 50 percent of the voting shares of the emerging entity.

The adoption of fresh start accounting resulted in a new reporting entity. The financial statements as of January 24, 2011 and for subsequent periods report the results of a new entity with no beginning retained earnings. With the exception of deferred taxes and assets and liabilities associated with pension and post-retirement healthcare plans, which were recorded in accordance with the Income Taxes Topic of the ASC and the Compensation Topic of the ASC, respectively, all of the new entity's assets and liabilities were recorded at their estimated fair values upon the Effective Date and the Predecessor Company's retained deficit and accumulated other comprehensive loss were eliminated. Any presentation of the new entity's financial position and results of operations is not comparable to prior periods.

In accordance with fresh start accounting, the Company also recorded the debt and equity at fair value utilizing the total enterprise value of approximately $1.5 billion. The enterprise value was determined in conjunction with the confirmation of the Plan. To facilitate the calculation of the enterprise value, the Company developed financial projections for the five years ending December 31, 2015 for the post-emergence company using a number of estimates and assumptions and prepared a calculation of the present value of the future cash flows. The projections were based on information available to the Company at the time of preparation of such projections in connection with the Plan and its confirmation and also in connection with negotiations regarding the Plan with certain of its lenders. The projections and calculation of the present value of the future cash flows included key assumptions, such as: (i) revenue growth beginning in 2013 through the terminal year based on the Company achieving specified business objectives, (ii) improving earnings before interest and taxes margins, (iii) reductions in capital expenditures and (iv) a risk adjusted discount rate of 7.2%. Projections are inherently subject to uncertainties and risks and the Company's actual results and financial condition have varied from those contemplated by the projections and other financial information provided to the Bankruptcy Court. The Company believes that because such projections and other financial information are now out of date and because of developments with respect to the Company's business since such projections were prepared, these projections should not be relied upon.

The implementation of the Plan and the adoption of fresh start accounting in the Company's consolidated balance sheet as of January 24, 2011 were as follows (in thousands):

FAIRPOINT COMMUNICATIONS, INC. AND SUBSIDIARIES
Reorganized Consolidated Balance Sheet as of January 24, 2011
(Unaudited)

	Predecessor Company	Reorganization Adjustments (a)	Fresh Start Adjustments (b)	Post-emergence Entity
Assets:				
Cash	$ 101,703	(91,441) (c)	—	$ 10,262
Restricted cash	2,386	82,764 (c)	—	85,150
Accounts receivable, net	129,308	—	—	129,308
Materials and supplies	24,776	—	(24,098) (l)	678
Prepaid expenses	17,152	—	(2,347)	14,805
Other current assets	8,620	—	(4,247)	4,373
Deferred income tax, net	31,400	—	—	31,400
Total current assets	**315,345**	**(8,677)**	**(30,692)**	**275,976**
Property, plant and equipment, net	1,852,508	—	(28,838) (f)(l)	1,823,670
Goodwill	595,120	—	(351,931) (i)	243,189
Intangible assets, net	187,791	—	(30,381) (g)	157,410
Prepaid pension asset	3,053	—	363 (h)	3,416
Debt issue costs, net	—	2,366 (d)	—	2,366
Restricted cash	1,678	—	—	1,678
Other assets	13,040	—	(3,874) (l)	9,166
Total assets	**$ 2,968,535**	**(6,311)**	**(445,353)**	**$ 2,516,871**
Liabilities and Stockholders' Equity (Deficit):				
Liabilities not subject to compromise:				
Current portion of long-term debt	$ —	—	—	$ —
Current portion of capital lease obligations	1,233	—	—	1,233
Accounts payable	98,674	(23,735)	—	74,939
Claims payable and estimated claims accrual	—	94,292 (c)	—	94,292
Other accrued liabilities	61,065	(1,800) (c)	(4,457) (h)	54,808
Total current liabilities	**160,972**	**68,757**	**(4,457)**	**225,272**
Capital lease obligations	3,831	—	—	3,831
Accrued pension obligation	93,033	—	(7,905) (h)	85,128
Employee benefit obligations	346,853	—	(13,599) (h)	333,254
Deferred income taxes	56,408	331,493 (j)	(40,124) (j)	347,777
Unamortized investment tax credits	4,313	—	(4,313) (j)	—
Other long-term liabilities	12,079	(2,094) (c)	13,138	23,123
Long-term debt, net of current portion	—	1,000,000 (d)	—	1,000,000
Total long-term liabilities	**516,517**	**1,329,399**	**(52,803)**	**1,793,113**
Total liabilities not subject to compromise	**677,489**	**1,398,156** (m)	**(57,260)**	**2,018,385**
Liabilities subject to compromise	2,910,952	(2,910,952) (n)	—	—
Total liabilities	**3,588,441**	**(1,512,796)**	**(57,260)**	**2,018,385**
Stockholders' equity (deficit):				
Predecessor Company common stock	894	(894)	—	—
Additional paid-in capital, Predecessor Company	725,804	(725,804)	—	—
Post-emergence entity common stock	—	257 (i)	—	257
Additional paid-in capital, post-emergence entity	—	498,229 (i)	—	498,229
Retained deficit	(1,134,293)	1,734,697 (e)	(600,404) (k)	—
Accumulated other comprehensive loss	(212,311)	—	212,311	—
Total stockholders' equity (deficit)	**(619,906)**	**1,506,485**	**(388,093)**	**498,486**
Total liabilities and stockholders' equity (deficit)	**$ 2,968,535**	**(6,311)**	**(445,353)**	**$ 2,516,871**

(a) Represents amounts recorded for the implementation of the Plan on the Effective Date. This included the settlement of liabilities subject to compromise, distributions of cash, authorization and partial distribution of shares of Common Stock and Warrants, designation of restricted cash to satisfy allowed claims and the cancellation of Predecessor Company common stock resulting in a pre-tax gain of approximately $1,351.0 million on extinguishment of obligations pursuant to the Plan and the related tax effects. The following reflects the calculation of the pre-tax gain (in thousands, unaudited):

Liabilities subject to compromise	$	2,910,952
Less: Transfer to Claims Reserve (as defined hereinafter)		(66,893)
Remaining liabilities subject to compromise		**2,844,059**
Less issuance of debt and equity, as follows:		
New long-term debt		(1,000,000)
Post-emergence entity common stock (at par value)		(251)
Post-emergence entity additional paid-in capital		(476,403)
Post-emergence entity warrants		(16,350)
Pre-tax gain from cancellation and satisfaction of predecessor indebtedness	**$**	**1,351,055**

(b) Represents the adjustments of assets and liabilities to fair value or other measurement in conjunction with adoption of fresh start accounting.

(c) Records the claims reserve established to pay outstanding bankruptcy claims and various other bankruptcy related fees (the "Claims Reserve") and the Cash Claims Reserve restricted for satisfaction of the reserve. The following reflects the components of the Claims Reserve (in thousands, unaudited):

Liabilities subject to compromise to be satisfied in cash	$	66,893
Professional and restructuring fees		24,601
Other		9,894
Claims Reserve before emergence date payments		**101,388**
Less: Professional and restructuring fee payments		(7,096)
Claims Reserve at emergence	**$**	**94,292**

The decrease in cash of $91.4 million at emergence was comprised of a reclassification of $82.8 million of operating cash to the Cash Claims Reserve within restricted cash to satisfy the Claims Reserve, $1.5 million of fees paid relating to debt financing and cash payments of $7.1 million for professional and restructuring fees. Tax claims were included in the Claims Reserve but were not included in the Cash Claims Reserve, because they were not required to be so included.

(d) Records the issuance of senior secured debt and related debt financing. Debt issuance costs of $2.4 million ($1.5 million paid in cash on the Effective Date) related to the Old Credit Agreement Loans were recorded in debt issue costs, net on the consolidated balance sheet and will be amortized over the terms of the respective agreements.

(e) Reflects the cumulative impact of the reorganization adjustments (in thousands, unaudited):

Pre-tax gain from cancellation and satisfaction of predecessor indebtedness	$	1,351,055
Income tax impact		(331,495)
Other		(11,561)
Total impact on consolidated statement of operations	**$**	**1,007,999**
Cancellation of predecessor common stock and additional paid-in capital		726,698
Total reorganization adjustments	**$**	**1,734,697**

(f) Reflects the fair values of property, plant and equipment in connection with the adoption of fresh start accounting. Fair value estimates were based on the following valuation methods:

- Land was valued using a combination of the market approach, which was primarily based on pertinent local sales and listings data, and the indirect cost approach, in which market trending indices were applied to the historical capital cost.
- Other real property such as buildings, building improvements and leasehold improvements were valued using either: (1) current market cost to construct improvements where information regarding size, age, construction type, etc. was available or (2) current market trending indices applied to historical capital costs where such detailed information was not available.

- Network assets (including central office and outside communications plant equipment) were valued using a combination of the direct replacement cost approach to value outside communications plant assets and an indirect cost approach in which current market trending indices were applied to the historical capital cost.
- Other personal property such as furniture, fixtures and other equipment were valued using a combination of a "percent of cost" market approach and an indirect cost approach based on replacement costs and current market trending indices.

The indices utilized were selected from industry accepted and published cost indices including the Bureau of Labor Statistics, Marshall Valuation Service, Consumer Price Indices, NACREIF Property Index and AUS Telephone Plant Index.

(g) Reflects the fair value of identifiable intangible assets in connection with the adoption of fresh start accounting. The Company recognized a $99.0 million customer list intangible asset, a $58.0 million trade name intangible asset related to the FairPoint Communications trade name and a $0.4 million favorable leasehold agreement intangible asset. Fair value estimates were based on the following valuation methods:

- The customer list asset was valued based on a cost method which utilized average cost to acquire a new line multiplied by the number of existing lines within the FairPoint network.
- The trade name was valued based on the relief from royalty method which utilized projected revenue (excluding wholesale revenue), the royalty rate that would be charged by an asset licensor to an unrelated licensee and a discount rate.

(h) An adjustment of $22.1 million (net) was recorded to measure the pension and other post-retirement employee benefit obligations as of the Effective Date. This adjustment primarily reflects the change in the weighted average discount rate applied to projected benefit obligations from the prior measurement date to the Effective Date. The weighted average discount rates applied to projected obligations changed as follows:

Discount Rate	**January 24, 2011**	**December 31, 2010**
Qualified Pension Plans	5.75%	5.56%
Post-retirement Healthcare Plans	5.84%	5.65%

(i) Reconciliation of the enterprise value to the reorganization value of FairPoint's assets, determination of goodwill and reconciliation of reorganization value of FairPoint's assets to the post-emergence entity equity (in thousands, unaudited):

Business Enterprise Value	$	1,498,486
Plus: Non-debt liabilities		1,018,385
Reorganization Value of FairPoint Assets	**$**	**2,516,871**
Less: Fair value of FairPoint assets (excluding goodwill)		(2,273,682)
Reorganization Value in Excess of Fair Value (Goodwill)	**$**	**243,189**

During the second quarter of 2011, the Company made a reclassification adjustment to property, plant and equipment related to the adoption of fresh start accounting, which reduced goodwill by $12.8 million to $243.2 million.

Reorganization Value of FairPoint Assets	$	2,516,871
Less: Non-debt liabilities		(1,018,385)
Less: Debt		(1,000,000)
Common Stock ($257) and Additional Paid-in-Capital ($498,229)	**$**	**498,486**

(j) Reflects the remeasurement of the Company's deferred tax assets and liabilities, unrecognized tax benefits and other tax related accounts as a result of implementing the Plan and the adoption of fresh start accounting in accordance with accounting guidance.

(k) Reflects the adjustment of assets and liabilities to fair value or other measurement as specified in accounting guidance related to business combinations as follows (in thousands, unaudited):

Elimination of predecessor goodwill	$	595,120
Elimination of predecessor intangible assets		187,791
Property, plant and equipment adjustment		56,258
Post-emergence unfavorable agreement liabilities		13,690
Post-emergence intangible assets		(157,410)
Post-emergence goodwill		(243,189)
Pension and post-retirement healthcare actuarial gain		(22,076)
Income tax impact		(40,124)
Other adjustments		(1,967)
Total impact on consolidated statement of operations	**$**	**388,093**
Elimination of accumulated other comprehensive loss		212,311
Total fair value adjustments and elimination of predecessor accumulated other comprehensive loss	**$**	**600,404**

(l) In conjunction with the adoption of fresh start accounting, management of the post-emergence entity changed its accounting policy to classify certain items relating to future use in capital projects with property, plant and equipment. As a result of this change in policy, management reclassified $24.1 million from materials and supplies and $3.3 million from other long-term assets to property, plant and equipment.

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

(n) Liabilities subject to compromise refer to liabilities incurred prior to the Petition Date for which the Company had not received approval from the Bankruptcy Court to pay or otherwise honor.

(5) Dividends

The Company currently does not pay a dividend on the Common Stock and does not expect to reinstate the payment of dividends in the foreseeable future.

(6) Goodwill and Other Intangible Assets

Goodwill

On the Effective Date, the Company recorded $256.0 million of goodwill in connection with the Company's adoption of fresh start accounting. During the second quarter of 2011, the Company made a $12.8 million reclassification adjustment to Property, Plant and Equipment based on fresh start accounting guidance which reduced the goodwill to $243.2 million.

At September 30, 2011, as a result of the significant sustained decline in the Company's stock price since the Effective Date, which caused the Company's market capitalization to be below its book value, the Company determined that a possible impairment of goodwill was indicated and concluded that an interim two-step goodwill impairment test was necessary. In step one, the Company calculated the discounted cash flows to arrive at a fair value, which was then compared to the carrying value, including goodwill. A combination of expected cash flows and higher discount rates resulted in the fair value, using the discounted cash flow method, being less than the carrying value, at which point the company proceeded to step two, which compares the implied fair value of the Company's goodwill to the carrying amount. Results of the impairment test required the Company to record an impairment charge reducing the carrying value of the goodwill to zero at September 30, 2011. The assessment of goodwill impairment falls within Level 3 of the fair value hierarchy, as outlined in note (2) "Summary of Significant Accounting Policies—(m) Fair Value Measurements", due to the use of significant unobservable inputs to determine the fair value of the goodwill, primarily using the income approach and specifically the discounted cash flow method.

Indefinite-lived Intangible Asset

On the Effective Date, the Company recorded a $58.0 million non-amortizable intangible asset related to the FairPoint trade name in connection with the Company's adoption of fresh start accounting.

At September 30, 2011, as a result of the significant sustained decline in the Company's stock price since the Effective Date which caused the Company's market capitalization to be below its book value, the Company determined that a possible impairment of the FairPoint trade name was indicated and concluded that an interim impairment test was necessary. Results of the impairment test required the Company to record an impairment charge totaling $18.8 million at September 30, 2011. This non-cash impairment charge had no impact on the Company's compliance with the covenants contained in the Old Credit Agreement.

Since this interim impairment test was performed on the last day of the 2011 third fiscal quarter, it effectively served as the Company's 2011 annual non-amortizable intangible asset impairment test for the fiscal year.

On October 1, 2012, the Company performed its annual non-amortizable intangible asset impairment test and concluded that there was no impairment at that time.

The assessment of trade name impairment falls within Level 3 of the fair value hierarchy, as outlined in note (2) "Summary of Significant Accounting Policies—(m) Fair Value Measurements", due to the use of significant unobservable inputs to determine fair value using the relief from royalty method.

As of December 31, 2012, the Company performed its routine review of impairment triggering events specified by the Intangibles—Goodwill and Other Topic of the ASC and concluded that it did not believe a triggering event had occurred.

At December 31, 2012 and 2011, the Company's trade name is recorded at $39.2 million.

Other Amortizable Intangible Assets

The Company's amortizable intangible assets are as follows (in thousands):

	December 31, 2012	December 31, 2011
Customer lists *(weighted average 9.0 years)*:		
Gross carrying amount	$ 99,000	$ 99,000
Less: accumulated amortization	(21,290)	(10,290)
Net customer lists	**77,710**	**88,710**
Favorable leasehold agreements *(weighted average 2.7 years)*:		
Gross carrying amount	410	410
Less: accumulated amortization	(297)	(144)
Net favorable leasehold agreements	**113**	**266**
Total amortizable intangible assets, net *(weighted average 8.9 years)*	**$ 77,823**	**$ 88,976**

Amortization expense of the Company's amortizable intangible assets was $11.2 million and $10.4 million for the year ended December 31, 2012 and the 341 days ended December 31, 2011, respectively, and is expected to be approximately $11.1 million in 2013 and $11.0 million in 2014, 2015, 2016 and 2017, respectively. Amortization expense for the Company's amortizable intangible assets prior to the Effective Date was $1.5 million and $22.6 million for the 24 days ended January 24, 2011 and the year ended December 31, 2010, respectively.

(7) Property, Plant and Equipment

A summary of property, plant and equipment is shown below (in thousands):

	Estimated Life (in years)	December 31, 2012	December 31, 2011
Land	—	$ 36,824	$ 37,659
Buildings	40	181,269	186,941
Central office equipment	7 – 10	524,545	452,639
Outside communications plant	15 – 35	1,050,662	1,002,422
Furniture, vehicles and other work equipment	5 – 15	164,000	150,373
Plant under construction	—	90,766	102,872
Other	—	32,334	10,649
Total property, plant and equipment		**2,080,400**	**1,943,555**
Less: Accumulated depreciation		(642,091)	(280,490)
Net property, plant and equipment		**$ 1,438,309**	**$ 1,663,065**

Depreciation expense, excluding amortization of intangible assets, for the year ended December 31, 2012, the 341 days ended December 31, 2011, the 24 days ended January 24, 2011 and the year ended December 31, 2010 was $365.5 million, $326.5 million, $20.1 million and $267.3 million, respectively. Depreciation expense includes amortization of assets recorded under capital leases.

(8) Long-term Debt

On February 14, 2013, the Company completed the refinancing of the Old Credit Agreement Loans, entered into the New Credit Agreement and issued the Notes (each as defined hereinafter in note (20) "Subsequent Events"). The information herein sets forth our contractual obligations under the Old Credit Agreement as of December 31, 2012 and 2011, respectively, and does not include the Company's new obligations under the New Credit Agreement and Notes (each as defined hereinafter in note (20) "Subsequent Events").

Long-term debt for the Company at December 31, 2012 and 2011 is shown below (in thousands):

	December 31, 2012		December 31, 2011	
Senior secured credit facility, variable rate of 6.50% *(weighted average rate of 6.50%)* at December 31, 2012, due 2016 [(a)]	$	957,000	$	1,000,000
Less: current portion		(10,000)		(10,000)
Total long-term debt, net of current portion	**$**	**947,000**	**$**	**990,000**

(a) The estimated fair value of the Company's long-term debt at December 31, 2012 and 2011 was approximately $929.5 million and $795.0 million, respectively, based on market prices of the Company's debt securities at the respective balance sheet dates, which falls within Level 2 of the fair value hierarchy, as outlined in note (2) "Summary of Significant Accounting Policies—(m) Fair Value Measurements".

As of December 31, 2012, the Company had $63.0 million, net of $12.0 million outstanding letters of credit, available for additional borrowing under the Old Revolving Facility.

During the year ended December 31, 2012, the Company made a total of $33.0 million in voluntary repayments, which were applied to the balance due at maturity, in addition to the $10.0 million in scheduled repayments on the Old Term Loan. Voluntary repayments of the Old Term Loan and mandatory amortization both reduce excess cash flow, as defined in the Company's Old Credit Agreement, for purposes of calculating any excess cash flow sweep.

The approximate aggregate maturities of long-term debt for each of the four years subsequent to December 31, 2012 are as follows (in thousands):

Year ending December 31,	Balance Due	
2013	$	10,000
2014		25,000
2015		37,500
2016		884,500
Total long-term debt, including current portion	**$**	**957,000**

Pursuant to the Plan, the Company did not make any principal or interest payments on its pre-petition debt during the pendency of the Chapter 11 Cases. In accordance with the Reorganizations Topic of the ASC, as interest on the Pre-Petition Notes subsequent to the Petition Date was not expected to be an allowed claim, the Company did not accrue interest expense on the Pre-Petition Notes during the pendency of the Chapter 11 Cases. Accordingly, $4.8 million and $72.2 million, respectively, of interest on unsecured debts, at the stated contractual rates, was not accrued during the 24 days ended January 24, 2011 and the year ended December 31, 2010. The Company continued to accrue interest expense on the Pre-Petition Credit Facility, as such interest was considered an allowed claim per the Plan.

All pre-petition debt was terminated on the Effective Date.

Old Credit Agreement

On the Effective Date, the Old Credit Agreement Borrowers entered into the Old Credit Agreement. The Old Credit Agreement was comprised of the Old Revolving Facility, which has a sub-facility providing for the issuance of up to $30.0 million of letters of credit, and the Old Term Loan. On the Effective Date, the Company paid to the lenders providing the Old Revolving Facility an aggregate fee equal to $1.5 million. Interest on the Old Credit Agreement Loans accrued at an annual rate equal to either

(a) LIBOR plus 4.50%, with a minimum LIBOR floor of 2.00% for the Old Term Loan, or (b) a base rate plus 3.50% per annum, which base rate was equal to the highest of (x) Bank of America's prime rate, (y) the federal funds effective rate plus 0.50% and (z) the applicable LIBOR plus 1.00%. In addition, the Company was required to pay a 0.75% per annum commitment fee on the average daily unused portion of the Old Revolving Facility. The entire outstanding principal amount of the Old Credit Agreement Loans was to be due and payable five years after the Effective Date (the "Maturity Date"); provided that on the third anniversary of the Effective Date, the Company must have elected (subject to the absence of events of default under the Old Credit Agreement) to continue the maturity of the Old Revolving Facility and must have paid a continuation fee of $0.75 million and, on the fourth anniversary of the Effective Date, the Company must elect (subject to the absence of events of default under the Old Credit Agreement) to continue the maturity of the Old Revolving Facility and must pay a second continuation fee of $0.75 million. The Old Credit Agreement required quarterly repayments of principal of the Old Term Loan after the first anniversary of the Effective Date. In the second and third years following the Effective Date, such quarterly payments were or were to be, as the case may be, in an amount equal to $2.5 million; during the fourth year following the Effective Date, such quarterly payments were to be in an amount equal to $6.25 million; and for the first three quarters during the fifth year following the Effective Date, such quarterly payments were to be in an amount equal to $12.5 million, with all remaining outstanding amounts owed in respect of the Old Term Loan being due and payable on the Maturity Date. During 2012, the Company made $43.0 million of principal repayments on the Old Term Loan.

The Old Credit Agreement Loans were guaranteed by all of the Company's current and future direct and indirect subsidiaries, other than (x) any subsidiary that was prohibited by applicable law from guaranteeing the obligations under the Old Credit Agreement Loans and/or providing any security therefor without the consent of a state public utilities commission, and (y) any subsidiary of the Company's that was a controlled foreign corporation or a subsidiary that was held directly or indirectly by a controlled foreign corporation (these subsidiaries, together with FairPoint Communications and FairPoint Logistics, are collectively referred to as the "Financing Loan Parties"). The Old Credit Agreement Loans as a whole were secured by liens upon substantially all existing and after-acquired assets of the Financing Loan Parties, with first lien and payment waterfall priority for the Old Revolving Facility and second lien priority for the Old Term Loan.

The Old Credit Agreement contained customary representations, warranties and affirmative covenants. In addition, the Old Credit Agreement contained restrictive covenants that limit, among other things, the ability of the Company to incur indebtedness, create liens, engage in mergers, consolidations and other fundamental changes, make investments or loans, engage in transactions with affiliates, pay dividends, make capital expenditures and repurchase capital stock. The Old Credit Agreement also contained minimum interest coverage and maximum total leverage maintenance covenants, along with a maximum senior leverage covenant measured upon the incurrence of certain types of debt. The ratios measured in these covenants, which were reported quarterly, periodically adjusted to become more restrictive as set forth in the Old Credit Agreement. The initial adjustment for each of the three covenants was to be reflected in the quarterly covenant reporting for the third quarter of 2013. The Old Credit Agreement contained certain events of default, including failure to make payments, breaches of covenants and representations, cross defaults to other material indebtedness, unpaid and uninsured judgments, changes of control and bankruptcy events of default. The lenders' commitments to fund amounts under the Old Revolving Facility were subject to certain customary conditions. As of December 31, 2012, the Old Credit Agreement Borrowers were in compliance with all covenants under the Old Credit Agreement.

The Old Credit Agreement also provided for mandatory prepayments of outstanding balances on the Old Credit Agreement Loans with the proceeds from certain asset dispositions, certain equity and debt issuances, and certain extraordinary cash receipts. Proceeds from such events could have been reinvested by the Old Credit Agreement Borrowers in lieu of any such mandatory prepayment under certain circumstances. In addition, at the end of each fiscal year, a test was performed to determine if excess cash flow, as defined in the Old Credit Agreement, was generated during the year. If the calculation indicated that excess cash flow was generated, a certain percentage (determined by reference to the total leverage ratio) of such excess cash flow was required to be prepaid against outstanding balances. Any mandatory prepayments were to be first applied to the Old Revolving Facility until repaid and then to the Old Term Loan.

On November 13, 2012, the Old Credit Agreement Borrowers and lenders holding in excess of 50% of loans and commitments entered into an amendment (the "Amendment") to the Old Credit Agreement. The Amendment permitted the Company to (i) enter into any written agreements to make any restricted dispositions of assets without prior approval of the lenders under the Old Credit Agreement (but not consummate such restricted dispositions until any necessary approval is obtained) and (ii) increased the amount of consideration that the Company could have received from the dispositions of assets in any fiscal year from $25.0 million and, depending on the Consolidated Total Leverage Ratio (as defined in the Old Credit Agreement), $50.0 million, to $125.0 million and $200.0 million, respectively. Consistent with the Old Credit Agreement as in effect prior to the Amendment, the Company continued to have the ability to (i) retain $5.0 million of net cash proceeds from dispositions of assets in any fiscal year and (ii) reinvest up to $20.0 million or, depending on the Consolidated Total Leverage Ratio, $45.0 million, of net cash proceeds (the "Reinvestment Limit"), from dispositions in any fiscal year, in each case in accordance with the Old Credit Agreement. Any net cash proceeds in excess of the Reinvestment Limit were required to be applied immediately to prepay the Old Term Loan at par.

On February 14, 2013, the Company completed its refinancing and paid all amounts outstanding under the Old Credit Agreement.

Debt Issue Costs

Agreement. These debt issue costs are being amortized over a weighted average life of 3.7 years using the effective interest method.

As of December 31, 2012 and 2011, the Company had capitalized debt issue costs of $1.1 million and $1.8 million, respectively, net of amortization.

(9) Employee Benefit Plans

The Company sponsors noncontributory qualified pension plans and post-retirement healthcare plans which provide certain cash payments and medical and dental benefits to covered retired employees and their beneficiaries and covered dependents. These plans were assumed as part of the acquisition of the Northern New England operations from Verizon. The qualified pension plan and the post-retirement healthcare plan which cover non-represented employees are frozen. Therefore, no new benefits are being earned by participants and no new participants are becoming eligible for benefits in these plans. Participants in the qualified pension plan and the post-retirement healthcare plan covering represented employees continue to accrue benefits in accordance with the respective plan documents and contractual requirements in the collective bargaining agreements. Eligibility to participate in the plans is based on an employee's age and years of service. The Company makes contributions to the qualified pension plans to meet minimum ERISA funding requirements and has the ability to elect to make additional discretionary contributions. Payments of benefits under the post-retirement healthcare plans are funded by the Company as the benefits are paid.

Annually, the Company remeasures the net liabilities of its qualified pension and other post-retirement healthcare benefits in accordance with the Compensation—Retirement Benefits Topic of the ASC.

Plan Assets, Obligations and Funded Status

A summary of plan assets, projected benefit obligation and funded status of the plans are as follows for the year ended December 31, 2012, the 341 days ended December 31, 2011 and the 24 days ended January 24, 2011 (in thousands):

	Qualified Pension Plans		
			Predecessor Company
	Year Ended December 31, 2012	Three Hundred Forty-One Days Ended December 31, 2011	Twenty-Four Days Ended January 24, 2011
Fair value of plan assets:			
Beginning fair value of plan assets	$ 160,293	$ 177,555	$ 176,474
Actual return on plan assets	13,931	1,786	1,119
Plan settlements	(3,517)	(5,661)	—
Employer contributions	19,842	6,788	—
Benefits paid	(24,245)	(20,175)	(38)
Ending fair value of plan assets	**166,304**	**160,293**	**177,555**
Projected benefit obligation:			
Beginning projected benefit obligation	$ 318,254	$ 259,267	$ 265,760
Service cost	15,489	11,885	849
Interest cost	14,565	12,882	934
Plan curtailments	—	(4,701)	—
Plan settlements	(3,517)	(5,661)	—
Benefits paid	(24,245)	(20,175)	(38)
Actuarial loss (gain)	49,295	64,757	(8,238)
Ending projected benefit obligation	**369,841**	**318,254**	**259,267**
Funded status	**$ (203,537)**	**$ (157,961)**	**$ (81,712)**
Accumulated benefit obligation	$ 323,432	$ 283,353	$ 259,200
Amounts recognized in the consolidated balance sheet:			
Long-term assets	$ —	$ —	$ 3,416
Current liabilities	—	—	—
Long-term liabilities	(203,537)	(157,961)	(85,128)
Net amount recognized in the consolidated balance sheet	**$ (203,537)**	**$ (157,961)**	**$ (81,712)**
Amounts recognized in accumulated other comprehensive loss:			
Prior service cost	$ —	$ —	$ (17,043)
Net actuarial loss	(116,835)	(70,861)	(109,228)
Net amount recognized in accumulated other comprehensive loss	**$ (116,835)**	**$ (70,861)**	**$ (126,271)**

	Post-retirement Healthcare Plans		
			Predecessor Company
	Year Ended December 31, 2012	Three Hundred Forty-One Days Ended December 31, 2011	Twenty-Four Days Ended January 24, 2011
Fair value of plan assets:			
Beginning fair value of plan assets	$ 961	$ 215	$ 214
Actual return on plan assets	—	(8)	1
Plan settlements	—	—	—
Employer contributions	2,530	2,601	182
Benefits paid	(3,491)	(1,847)	(182)
Ending fair value of plan assets	**—**	**961**	**215**
Projected benefit obligation:			
Beginning projected benefit obligation	$ 533,181	$ 333,301	$ 344,901
Service cost	25,423	18,944	1,167
Interest cost	23,958	19,859	1,252
Plan curtailments	—	(1,812)	—
Plan settlements	—	—	—
Benefits paid	(3,491)	(1,847)	(182)
Actuarial loss (gain)	42,372	164,736	(13,837)
Ending projected benefit obligation	**621,443**	**533,181**	**333,301**
Funded status	**$ (621,443)**	**$ (532,220)**	**$ (333,086)**
Amounts recognized in the consolidated balance sheet:			
Long-term assets	$ —	$ —	$ —
Current liabilities	(5,064)	(3,777)	(2,305)
Long-term liabilities	(616,379)	(528,443)	(330,781)
Net amount recognized in the consolidated balance sheet	**$ (621,443)**	**$ (532,220)**	**$ (333,086)**
Amounts recognized in accumulated other comprehensive loss:			
Prior service cost	$ —	$ —	$ (29,150)
Net actuarial loss	(197,929)	(161,718)	(113,455)
Net amount recognized in accumulated other comprehensive loss	**$ (197,929)**	**$ (161,718)**	**$ (142,605)**

Qualified Pension Plan Assets. The qualified pension plans' portfolio strategy emphasizes a long-term equity orientation, global diversification and financial and operating risk controls. Both active and passive management investment approaches are employed depending on perceived market efficiencies and various other factors. The qualified pension plans' diversification targets of 20% equity and 80% fixed income securities for the non-represented employees plan and 70% equity and 30% fixed income securities for the represented employees plan seek to minimize the concentration of market risk. The asset allocation at December 31, 2012 for the Company's qualified pension plan assets was as follows:

	Non-Represented Employees Plan	Represented Employees Plan	Total Qualified Pension Plans
Cash and cash equivalents [(a)]	2.3%	5.9%	5.1%
Equity securities [(b)]	12.0%	65.2%	53.0%
Fixed income securities	85.7%	28.9%	41.9%
Plan asset portfolio allocation at December 31, 2012	100.0%	100.0%	100.0%

(a) Cash and cash equivalents at December 31, 2012 include amounts pending settlement from the purchase or sale of equity or fixed income securities.

(b) Equity securities at December 31, 2012 include amounts held in hedged equity funds which primarily invest using a "fund of funds" strategy in multiple other equity funds.

The fair values for the qualified pension plan assets by asset category at December 31, 2012 are as follows (in thousands):

	Total	Level 1	Level 2	Level 3
Cash and cash equivalents	$ 8,480	$ 8,480	$ —	$ —
Equity securities [a]	88,177	53,209	23,099	11,869
Fixed income securities	69,647	21,543	48,104	—
Fair value of plan assets at December 31, 2012	**$ 166,304**	**$ 83,232**	**$ 71,203**	**$ 11,869**

(a) All Level 3 equity securities are amounts held in hedged equity funds.

The fair values for the qualified pension plan assets by asset category at December 31, 2011 were as follows (in thousands):

	Total	Level 1	Level 2	Level 3
Cash and cash equivalents	$ 11,002	$ 11,002	$ —	$ —
Equity securities [a]	84,282	44,746	17,176	22,360
Fixed income securities	65,009	31,347	33,662	—
Fair value of plan assets at December 31, 2011	**$ 160,293**	**$ 87,095**	**$ 50,838**	**$ 22,360**

(a) All Level 3 equity securities are amounts held in hedged equity funds.

The fair values for the Predecessor Company qualified pension plans by asset category at January 24, 2011 were as follows (in thousands):

	Total	Level 1	Level 2	Level 3
Cash and cash equivalents	$ 4,814	$ 4,814	$ —	$ —
Equity securities [a]	109,138	55,980	31,051	22,107
Fixed income securities	63,603	21,881	41,722	—
Fair value of plan assets at January 24, 2011	**$ 177,555**	**$ 82,675**	**$ 72,773**	**$ 22,107**

(a) All Level 3 equity securities are amounts held in hedged equity funds.

Cash and cash equivalents include short-term investment funds, primarily in diversified portfolios of investment grade money market instruments and are valued using quoted market prices, and thus classified within Level 1 of the fair value hierarchy, as outlined in note (2) "Summary of Significant Accounting Policies—(m) Fair Value Measurements".

Equity securities include direct holdings of equity securities and units held of mutual funds that invest in equity securities of domestic and international corporations in a variety of industry sectors. The direct holdings and units held in publicly traded mutual funds are valued using quoted market prices and are classified within Level 1 of the fair value hierarchy. Fair values for units held in mutual funds that invest in equity securities that are not publicly traded are based on observable prices and are classified within Level 2 of the fair value hierarchy. Hedged equity funds included within equity securities seek to maximize absolute returns using a broad range of strategies to enhance returns and provide diversification. The fair values of hedged equity funds are estimated using net asset value per share of the investments. The Company has the ability to redeem these investments at NAV on a limited basis, and thus has classified hedged equity funds within Level 3 of the fair value hierarchy.

Fixed income securities are investments in mutual funds that invest in corporate bonds and other debt instruments. These securities are expected to provide significant diversification benefits, in terms of asset volatility and pension funding volatility, in the portfolio and a stable source of income. Units held in publicly traded mutual funds that invest in fixed income securities are valued using quoted market prices and are classified within Level 1 of the fair value hierarchy. Fair values of mutual funds that invest in fixed income securities that are not publicly traded are based on observable prices and are classified within Level 2 of the fair value hierarchy.

A reconciliation of the beginning and ending balance of plan assets that are measured at fair value using significant unobservable (Level 3) inputs for the 24 days ended January 24, 2011, the 341 days ended December 31, 2011 and the year ended December 31, 2012 is as follows (in thousands):

	Hedged Equity Funds	Total
Balance at December 31, 2010 (Predecessor Company)	**$ 21,931**	**$ 21,931**
Actual gain on plan assets held	176	176
Balance at January 24, 2011 (Predecessor Company)	**$ 22,107**	**$ 22,107**
Actual gain on plan assets held	253	253
Balance at December 31, 2011	**$ 22,360**	**$ 22,360**
Actual gain on plan assets held	509	509
Transfers in and/or out of Level 3	(11,000)	(11,000)
Balance at December 31, 2012	**$ 11,869**	**$ 11,869**

Post-retirement Healthcare Plan Assets. The post-retirement healthcare plan assets were returned to the Company during 2012 as the related trust was no longer required in light of the New Hampshire deregulation legislation. The plan assets for the post-retirement healthcare plans were invested in short-term investment funds, primarily in diversified portfolios of investment grade money market instruments and were valued using quoted market prices and thus classified within Level 1 of the fair value hierarchy, as outlined in note (2) "Summary of Significant Accounting Policies—(m) Fair Value Measurements".

Net Periodic Benefit Cost. Components of the net periodic benefit cost related to the Company's qualified pension plans and post-retirement healthcare plans for the year ended December 31, 2012, the 341 days ended December 31, 2011, the 24 days ended January 24, 2011 and the year ended December 31, 2010 are as follows (in thousands):

	Qualified Pension Plans			
			Predecessor Company	
	Year Ended December 31, 2012	Three Hundred Forty-One Days Ended December 31, 2011	Twenty-Four Days ended January 24, 2011	Year ended December 31, 2010
Service cost	$ 15,489	$ 11,885	$ 849	$ 11,187
Interest cost	14,565	12,882	934	12,963
Expected return on plan assets	(13,268)	(13,303)	(1,089)	(16,664)
Amortization of prior service cost	—	—	98	1,524
Amortization of actuarial loss	2,213	—	283	2,087
Plan settlement	445	712	—	—
Net periodic benefit cost	**$ 19,444**	**$ 12,176**	**$ 1,075**	**$ 11,097**

	Post-retirement Healthcare Plans			
			Predecessor Company	
	Year Ended December 31, 2012	Three Hundred Forty-One Days Ended December 31, 2011	Twenty-Four Days Ended January 24, 2011	Year Ended December 31, 2010
Service cost	$ 25,423	$ 18,944	$ 1,167	$ 14,321
Interest cost	23,958	19,859	1,252	16,347
Expected return on plan assets	(33)	(13)	(1)	(3)
Amortization of prior service cost	—	—	276	4,289
Amortization of actuarial loss	6,194	303	368	3,474
Plan settlement	—	925	—	—
Net periodic benefit cost	**$ 55,542**	**$ 40,018**	**$ 3,062**	**$ 38,428**

Other Comprehensive Loss (Income). Other pre-tax changes in plan assets and benefit obligations recognized in other comprehensive loss (income) are as follows for the year ended December 31, 2012, the 341 days ended December 31, 2011, the 24 days ended January 24, 2011 and the year ended December 31, 2010 (in thousands):

	Qualified Pension Plans			
			Predecessor Company	
	Year Ended December 31, 2012	Three Hundred Forty-One Days Ended December 31, 2011	Twenty-Four Days Ended January 24, 2011	Year ended December 31, 2010
Amounts recognized in other comprehensive loss (income):				
New prior service cost	$ —	$ —	$ —	$ —
Net loss arising during the period	48,632	71,573	—	39,170
Amortization or curtailment of prior service cost	—	—	(98)	(1,524)
Amortization or settlement recognition of net loss	(2,658)	(712)	(283)	(2,087)
Total amount recognized in other comprehensive loss (income)	**$ 45,974**	**$ 70,861**	**$ (381)**	**$ 35,559**
Estimated amounts that will be amortized from accumulated other comprehensive loss in the next fiscal year:				
Prior service cost	$ —	$ —	$ —	$ (126)
Net actuarial loss	(4,870)	(2,069)	—	(365)
Total amount estimated to be amortized from accumulated other comprehensive loss in the next fiscal year	**$ (4,870)**	**$ (2,069)**	**$ —**	**$ (491)**

	Post-retirement Healthcare Plans			
			Predecessor Company	
	Year Ended December 31, 2012	Three Hundred Forty-One Days Ended December 31, 2011	Twenty-Four Days Ended January 24, 2011	Year Ended December 31, 2010
Amounts recognized in other comprehensive loss (income):				
New prior service cost	$ —	$ —	$ —	$ —
Net loss arising during the period	42,405	162,021	—	55,427
Amortization or curtailment of prior service cost	—	—	(276)	(4,289)
Amortization or settlement recognition of net loss	(6,194)	(303)	(368)	(3,474)
Total amount recognized in other comprehensive loss (income)	**$ 36,211**	**$ 161,718**	**$ (644)**	**$ 47,664**
Estimated amounts that will be amortized from accumulated other comprehensive loss in the next fiscal year:				
Prior service cost	$ —	$ —	$ —	$ (357)
Net actuarial loss	(8,941)	(6,727)	—	(475)
Total amount estimated to be amortized from accumulated other comprehensive loss in the next fiscal year	**$ (8,941)**	**$ (6,727)**	**$ —**	**$ (832)**

Assumptions

The determination of the net liability and the net periodic benefit cost recognized for the qualified pension plans and post-retirement healthcare plans by the Company are, in part, based on assumptions made by management. These assumptions include, among others, the discount rate applied to estimated future cash flows of the plans, the expected return on assets held by the qualified pension plans, certain demographic characteristics of the participants, such as expected retirement and mortality rates, and future inflation in healthcare costs. Certain assumptions, which include, among others, assumptions regarding future benefit increases and increases in the amount of post-retirement healthcare expenditures to be paid by the Company, reflect the Company's past practice of providing such increases to participants and therefore are considered a substantive plan under the Compensation—Retirement Benefits Topic of the ASC.

Projected Benefit Obligation Assumptions. The weighted average assumptions used in determining projected benefit obligations are as follows:

			Predecessor Company
	December 31, 2012	December 31, 2011	January 24, 2011
Qualified Pension Plans:			
Discount rate	4.08%	4.63%	5.75%
Rate of compensation increase [(a)]	3.00%	3.00%	3.00%
Post-retirement Healthcare Plans:			
Discount rate	4.20%	4.66%	5.85%
Rate of compensation increase [(a)]	4.00%	4.00%	4.00%

(a) The rate of future increases in compensation assumption only applies to the plans for represented employees as plans for non-represented employees are frozen.

Net Periodic Benefit Cost Assumptions. The weighted average assumptions used in determining net periodic cost are as follows:

			Predecessor Company	
	Year Ended December 31, 2012	Three Hundred Forty-One Days Ended December 31, 2011	Twenty-Four Days Ended January 24, 2011	Year ended December 31, 2010
Qualified Pension Plans:				
Discount rate	4.63%	5.75%	5.56%	6.00%
Expected return on plan assets [(a)]	7.52%	8.32%	8.32%	8.32%
Rate of compensation increase [(b)]	3.00%	3.00%	3.00%	4.00%
Post-retirement Healthcare Plans:				
Discount rate	4.66%	5.85%	5.65%	6.13%
Rate of compensation increase [(b)]	4.00%	4.00%	4.00%	4.00%
Healthcare cost trend rate assumed for participants under 65 next year	8.10%	8.40%	7.50%	7.70%
Healthcare cost trend rate assumed for participants over 65 next year	8.10%	8.40%	7.90%	8.20%
Rate that the cost trend rates ultimately declines to	4.50%	4.50%	4.00%	4.00%
Year that the rates reach the terminal rate	2030	2030	2029	2029

(a) In developing the expected long-term rate-of-return assumption, the Company evaluated historical investment performance and input from its investment advisors. Projected returns by such advisors were based on broad equity and bond indices. The target allocations of the qualified pension plans previously disclosed in "—Plan Assets, Obligations and Funded Status—Qualified Pension Plan Assets" herein were utilized.

(b) The rate of future increases in compensation assumption only applies to the plans for represented employees as plans for non-represented employees are frozen.

Post-retirement Healthcare Plan Sensitivity. A 1% change in the medical trend rate assumed for post-retirement healthcare benefits at December 31, 2012 would have the following effects (in thousands):

		Increase (Decrease)
1% increase in the medical trend rate:		
Effect on total service cost and interest cost components	$	13,352
Effect on benefit obligation	$	158,198
1% decrease in the medical trend rate:		
Effect on total service cost and interest cost components	$	(9,981)
Effect on benefit obligation	$	(119,194)

The impact of the Medicare Drug Act of 2003 subsidy on the post-retirement healthcare benefits at December 31, 2012 is as follows (in thousands):

		Increase (Decrease)
Change in projected benefit obligation	$	(39,411)
Change in each component of net periodic cost:		
Service cost	$	(1,601)
Interest cost		(1,481)
Amortization of loss		(398)
Curtailment gain		—
Total change in net periodic cost	**$**	**(3,480)**

Estimated Future Contributions and Benefit Payments

On July 6, 2012, the Moving Ahead for Progress in the 21st Century Act was signed into law. This act contains a pension funding stabilization provision which allows pension plan sponsors to use higher interest rate assumptions when determining funded status and funding obligations. As a result, our 2013 minimum required pension plan contribution is $5.6 million, which is lower than it would have been in the absence of this stabilization provision. On September 25, 2012, the Company elected to defer use of the higher segment rates under the act until the first plan year beginning on or after January 1, 2013 solely for determination of the adjusted funding target attainment percentage ("AFTAP") used to determine benefit restrictions under Internal Revenue Code (the "Code") Section 436.

Estimated future employer contributions, benefit payments and Medicare prescription drug subsidies expected to offset the future post-retirement healthcare benefit payments as of December 31, 2012 are as follows (in thousands):

	Qualified Pension Plans	Post-retirement Healthcare Plans
Expected employer contributions for fiscal year 2013	$ 15,000	$ 5,064
Expected benefit payments for fiscal years:		
2013	$ 15,464	$ 5,064
2014	16,776	5,923
2015	4,586	7,144
2016	5,709	8,602
2017	6,745	10,214
2018-2022	57,646	79,749
Expected subsidy for fiscal years:		
2013		$ —
2014		—
2015		77
2016		112
2017		166
2018-2022		2,137

401(k) Savings Plans

The Company and its subsidiaries sponsor four voluntary 401(k) savings plans that, in the aggregate, cover all eligible Telecom Group employees, and two voluntary 401(k) savings plans that, in the aggregate, cover all eligible Northern New England operations employees (collectively, "the 401(k) Plans"). Each 401(k) Plan year, the Company contributes an amount of matching contributions to the 401(k) Plans determined by the Company at its discretion for management employees and based on collective bargaining agreements for all other employees. For the 401(k) Plan years ended December 31, 2012, 2011 and 2010, the Company generally matched 100% of each employee's contribution up to 5% of compensation. Total Company contributions to all 401(k) Plans were $9.8 million, $9.8 million, $0.7 million, and $10.4 million for the year ended December 31, 2012, the 341 days ended December 31, 2011, the 24 days ended January 24, 2011 and the year ended December 31, 2010, respectively.

(10) Income Taxes

Income Tax Benefit (Expense)

Income tax benefit (expense) for the year ended December 31, 2012, the 341 days ended December 31, 2011, the 24 days ended January 24, 2011 and the year ended December 31, 2010 consists of the following components (in thousands):

			Predecessor Company	
	Year Ended December 31, 2012	Three Hundred Forty-One Days Ended December 31, 2011	Twenty-Four Days Ended January 24, 2011	Year Ended December 31, 2010
Current:				
Federal	$ —	$ 913	$ —	$ —
State and local	(1,218)	160	(21)	(732)
Total current income tax (expense) benefit	**(1,218)**	**1,073**	**(21)**	**(732)**
Investment tax credits	**—**	**—**	**—**	**478**
Deferred:				
Federal	77,010	49,001	(247,844)	3,246
State and local	19,768	3,202	(32,024)	4,669
Total deferred income tax benefit (expense)	**96,778**	**52,203**	**(279,868)**	**7,915**
Total income tax benefit (expense)	**$ 95,560**	**$ 53,276**	**$ (279,889)**	**$ 7,661**

Total income tax (expense) benefit was different than that computed by applying United States federal income tax rates to (loss) income before income taxes for the year ended December 31, 2012, the 341 days ended December 31, 2011, the 24 days ended January 24, 2011 and the year ended December 31, 2010.

For the year ended December 31, 2012, the effective tax rate to calculate the tax benefit on $248.9 million of pre-tax loss was 38.4%. The rate differs from the 35% federal statutory rate primarily due to state taxes as well as a favorable provision to return permanent adjustments, offset by an increase to the valuation allowance.

For the 341 days ended December 31, 2011, the effective tax rate to calculate the tax benefit on $468.2 million of pre-tax loss was 11.4%. The rate differs from the 35% federal statutory rate primarily due to an impairment charge reducing the carrying value of the Company's goodwill to zero and an increase in the Company's valuation allowance.

For the 24 days ended January 24, 2011, the effective tax rate to calculate the tax expense on $866.8 million of pre-tax income was 32.3%. The rate differs from the 35% federal statutory rate primarily due to the release of the valuation allowance and other miscellaneous reorganization adjustments.

For the year ended December 31, 2010, the effective tax rate to calculate the tax benefit on $289.2 million of pre-tax loss was 2.6%. The effective tax rate was impacted by a one-time, non-cash income tax charge of $6.8 million during the first quarter of 2010, as a result of the enactment of the *Patient Protection and Affordable Care Act* and the *Health Care and Education Reconciliation Act of 2010*, both of which became law in March 2010. The effective tax rate for the year ended December 31, 2010 was also impacted by non-deductible restructuring charges and post-petition interest, as well as a significant increase in the Company's valuation allowance for deferred tax assets due to its inability, by rule, to rely on future earnings to offset its net operating losses ("NOLs") during the Chapter 11 Cases.

A reconciliation of the Company's statutory tax rate to its effective tax rate is presented below (in percentages):

			Predecessor Company	
	Year Ended December 31, 2012	**Three Hundred Forty-One Days Ended December 31, 2011**	**Twenty-Four Days Ended January 24, 2011**	**Year Ended December 31, 2010**
Statutory federal income tax (benefit) rate	**(35.0)%**	**(35.0)%**	**35.0 %**	**(35.0)%**
State income tax (benefit) expense, net of federal income tax expense	(4.8)	(4.0)	4.3	(2.9)
Post-petition interest	—	—	0.4	16.6
Goodwill impairment	—	16.2	13.7	—
Non-taxable debt cancellation income	—	(9.3)	(12.3)	—
Investment tax credits	—	—	—	(0.2)
Restructuring charges	0.1	0.3	0.3	2.6
Medicare subsidy impact of law change	—	—	—	2.4
Other, net	(0.1)	1.2	(0.2)	(0.1)
Valuation allowance	1.4	19.2	(8.9)	14.0
Effective income tax (benefit) rate	**(38.4)%**	**(11.4)%**	**32.3 %**	**(2.6)%**

Deferred Income Taxes

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and deferred tax liabilities as of December 31, 2012 and 2011 are presented below (in thousands):

	December 31, 2012	December 31, 2011
Deferred tax assets:		
Federal and state tax loss carryforwards	$ 75,744	$ 77,765
Employee benefits	347,567	282,868
Allowance for doubtful accounts	7,709	16,045
Alternative minimum tax and other state credits	4,531	4,144
Service quality rebate reserve	2,449	3,002
Other, net	14,561	19,006
Total gross deferred tax assets	**452,561**	**402,830**
Deferred tax liabilities:		
Property, plant, and equipment	320,534	407,944
Goodwill and other intangible assets	39,856	38,235
Other, net	10,664	11,230
Total gross deferred tax liabilities	**371,054**	**457,409**
Net deferred tax assets (liabilities) before valuation allowance	**81,507**	**(54,579)**
Valuation allowance	(192,492)	(172,875)
Net deferred tax liabilities	**$ (110,985)**	**$ (227,454)**

At December 31, 2012, the Company had gross federal NOL carryforwards of $196.3 million after taking into consideration the NOL tax attribute reduction of $581.8 million resulting from the Company's discharge of indebtedness upon emergence from Chapter 11 protection. The Company's remaining federal NOL carryforwards will expire from 2022 to 2033. At December 31, 2012, the Company had a net, after attribute reduction, state NOL deferred tax asset of $10.8 million. At December 31, 2012, the Company had no alternative minimum tax credits. Telecom Group completed an initial public offering on February 8, 2005, which resulted in an "ownership change" within the meaning of the United States federal income tax laws addressing NOL carryforwards, alternative minimum tax credits and other similar tax attributes. The Merger and the Company's emergence from Chapter 11 protection also resulted in ownership changes. As a result of these ownership changes, there are specific limitations on the Company's ability to use its NOL carryforwards and other tax attributes. The Company believes that it can use the NOLs even with these restrictions in place.

During the 24 days ended January 24, 2011 the Predecessor Company excluded from taxable income $1,045.4 million of income from the discharge of indebtedness as defined under Section 108 of the Code. There was no additional income from the discharge of indebtedness for the 341 days ended December 31, 2011 or the year ended December 31, 2012; however, the Company did recognize additional tax benefits due to a change in the amount of its deferred tax liability for these periods, respectively, related to a tax attribute reduction from the discharge of indebtedness. Section 108 of the Code excludes from taxable income the amount of indebtedness discharged under a Chapter 11 case. Section 108 of the Code also requires a reduction of tax attributes equal to the amount of excluded taxable income to be made on the first day of the tax year following the emergence from bankruptcy. During 2012, the Company finalized the calculation of attribute reduction for federal and state income tax purposes.

Valuation Allowance. At December 31, 2012 and 2011, the Company established a valuation allowance against its deferred tax assets of $192.5 million and $172.9 million, respectively, which consist of a $159.5 million and $144.9 million federal allowance, respectively, and a $33.0 million and $28.0 million state allowance, respectively. During 2012 and 2011, an increase in the Company's valuation allowance of approximately $13.8 million and $54.3 million, respectively, was allocated to accumulated other comprehensive loss in the consolidated balance sheets.

Unrecognized Tax Benefits. The total unrecognized tax benefits that, if recognized, would affect the effective tax rate are $3.8 million. The Company does not expect a significant increase or decrease in its unrecognized tax benefits during the next twelve months. A reconciliation of the beginning and ending amount of unrecognized tax benefits is as follows (in thousands):

Balance as of December 31, 2010 (Predecessor Company)	**$**	**5,375**
Balance as of January 24, 2011 (Predecessor Company)	**$**	**5,375**
Additions for tax positions of prior years		1,907
Reductions for tax positions of prior years		(4,389)
Balance as of December 31, 2011	**$**	**2,893**
Additions for tax positions related to the current year		170
Additions for tax positions of prior years		722
Balance as of December 31, 2012	**$**	**3,785**

The Company recognizes any interest and penalties accrued related to unrecognized tax benefits in income tax expense. During the year ended December 31, 2012, the 341 days ended December 31, 2011, the 24 days ended January 24, 2011 and the year ended December 31, 2010, the Company did not make any payment of interest and penalties. There was nothing accrued in the consolidated balance sheets for the payment of interest and penalties at December 31, 2012 and 2011, respectively, as the remaining unrecognized tax benefits would only serve to reduce the Company's current federal and state NOL carryforwards, if ultimately recognized.

Income Tax Returns

The Company and its eligible subsidiaries file consolidated income tax returns in the United States federal jurisdiction and certain consolidated, combined and separate entity tax returns, as required, with various state and local governments. The Company is no longer subject to United States federal, state and local, or non-United States income tax examinations by tax authorities for years prior to 2008. NOL carryovers from closed tax years may be subject to examination by federal or state taxing authorities if utilized in a year open to examination. As of December 31, 2012 and 2011, respectively, the Company does not have any significant additional jurisdictional tax audits.

(11) Accumulated Other Comprehensive Loss

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

	December 31, 2012		December 31, 2011	
Accumulated other comprehensive loss, net of taxes:				
Qualified pension and post-retirement healthcare plans	$	(255,989)	$	(193,494)
Total accumulated other comprehensive loss	**$**	**(255,989)**	**$**	**(193,494)**

Other comprehensive (loss) income for the year ended December 31, 2012, the 341 days ended December 31, 2011, the 24 days ended January 24, 2011 and the year ended December 31, 2010 includes actuarial losses arising during the respective periods and amortization of these actuarial losses and prior service costs. For further detail of amounts recognized in other comprehensive loss (income) related to the qualified pension and post-retirement healthcare plans, *see* note (9) "Employee Benefit Plans—Plan Assets, Obligations and Funded Status—Other Comprehensive Loss (Income)" herein.

(12) Earnings Per Share

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

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

			Predecessor Company	
	Year Ended December 31, 2012	Three Hundred Forty-One Days Ended December 31, 2011	Twenty-Four Days Ended January 24, 2011	Year Ended December 31, 2010
Weighted average number of common shares used for basic earnings per share (a)	25,987	25,838	89,424	89,424
Effect of potential dilutive shares (b)	—	—	271	—
Weighted average number of common shares and potential dilutive shares used for diluted earnings per share	**25,987**	**25,838**	**89,695**	**89,424**
Anti-dilutive shares outstanding at period-end that are excluded from the above reconciliation (c)	4,955	4,764	712	983

(a) Weighted average number of common shares used for basic earnings per share excludes 245,602, 355,383, 16,666 and 369,941 weighted average shares of non-vested restricted stock as of the year ended December 31, 2012, the 341 days ended December 31, 2011, the 24 days ended January 24, 2011 and the year ended December 31, 2010, respectively. Non-vested restricted stock is included in common shares issued and outstanding in the consolidated balance sheets.

(b) Since the Company incurred a loss for the year ended December 31, 2012, the 341 days ended December 31, 2011 and the year ended December 31, 2010, all potentially dilutive securities are anti-dilutive for these periods and, therefore, are excluded from the determination of diluted earnings per share.

(c) Anti-dilutive shares outstanding at period-end that are excluded from the above reconciliation include Warrants and non-vested restricted stock and stock options issued under the Long Term Incentive Plan (as defined hereinafter in note (14) "Stock-Based Compensation").

(13) Stockholders' Deficit

On the Effective Date, the Company issued 25,659,877 shares of Common Stock and 3,458,390 Warrants to purchase Common Stock and established the Equity Claims Reserve which set aside 610,309 shares of Common Stock and 124,012 Warrants for satisfaction of certain pending claims related to the Chapter 11 Cases. During the year ended December 31, 2012 and the 341 days ended December 31, 2011, the Company distributed 69,194 and 541,115 shares of Common Stock, respectively, and 117,943 and 6,069 Warrants, respectively, from the Equity Claims Reserve in full satisfaction of allowed claims, thereby completing the Common Stock and Warrant distribution with respect to the Plan.

Warrants

At December 31, 2012, 3,582,402 Warrants, each eligible to purchase one share of Common Stock, were outstanding. The initial exercise price applicable to the Warrants is $48.81 per share of Common Stock. The exercise price applicable to the Warrants is subject to adjustment upon the occurrence of certain events described in the Warrant Agreement. The Warrants may be exercised at any time on or before the seventh anniversary of the Effective Date.

(14) Stock-Based Compensation

Stock-based compensation expense recognized in the financial statements is as follows (in thousands):

			Predecessor Company	
	Year Ended December 31, 2012	Three Hundred Forty-One Days Ended December 31, 2011	Twenty-Four Days Ended January 24, 2011	Year Ended December 31, 2010
Amounts charged against income, before income tax benefit	$ 4,055	$ 3,810	$ 5,499	$ 468
Amount of related income tax benefit recognized in income	(1,656)	(1,552)	(2,220)	(188)
Total net income impact	**$ 2,399**	**$ 2,258**	**$ 3,279**	**$ 280**

At December 31, 2012, the Company had $4.4 million of stock-based compensation cost related to non-vested awards that will be recognized over a weighted average period of 1.23 years, all of which is related to awards granted under the FairPoint Communications, Inc. 2010 Long Term Incentive Plan (the "Long Term Incentive Plan").

Long Term Incentive Plan

The Long Term Incentive Plan provides for grants of up to 3,134,603 shares of Common Stock awards, of which stock options and restricted stock awards can be granted. Pursuant to the terms of the Long Term Incentive Plan, if the consolidated enterprise value of the Company (as defined in the Long Term Incentive Plan) does not equal or exceed $2.3 billion on or prior to the expiration of the Warrants, then the aggregate number of shares available for issuance of future awards will be automatically reduced by 310,326 shares. As of December 31, 2012, there are 1,438,169 shares available for grant under the Long Term Incentive Plan prior to the share reduction clause noted in the Long Term Incentive Plan.

On the Effective Date, certain of the Company's employees, a consultant of the Company and members of the board of directors were granted stock options and/or restricted stock awards. The restricted stock awards granted to the consultant of the Company were 100% vested on the Effective Date. The remaining restricted stock awards and stock options granted to the Company's employees and members of the board of directors on the Effective Date vested 25% immediately, with the remainder of these awards to vest in three equal annual installments, commencing on the first anniversary of the Effective Date, with accelerated vesting upon (x) a change in control, or (y) a termination of an award holder's employment either without cause (but only to the extent the vesting becomes at least 50%, plus an additional 25% for each full year of the award holder's employment after the first full year after the Effective Date) or due to the award holder's death or disability (but, for stock options, only to the extent vesting would have otherwise occurred within one year following such termination of employment). During 2012, an additional 267,880 stock options were granted with the same vesting terms as the grants that occurred on the Effective Date.

Subsequent to the Effective Date, through December 31, 2012, the Company has also granted 43,800 shares of restricted stock and 106,600 stock options which vest over three equal annual installments, with one-third vesting on the first anniversary of the grant date and one-third on the second and third anniversaries thereafter.

Stock Options. Stock options have a term of 10 years from the date of grant; however, vested stock options will expire after 90 days of an employee's termination with the Company. Stock option activity under the Long Term Incentive Plan is summarized as follows:

	Options Outstanding		Weighted Average Exercise Price Per Share
Outstanding at January 24, 2011 (Predecessor Company)	**—**		**—**
Granted [(a)]	991,012	$	24.29
Exercised	—		—
Forfeited	—		—
Expired	—		—
Outstanding at January 24, 2011 (Post-emergence entity)	**991,012**	**$**	**24.29**
Granted [(a)]	26,600	$	24.29
Exercised	—		—
Forfeited	(69,875)		24.29
Expired	—		—
Outstanding at December 31, 2011	**947,737**	**$**	**24.29**
Granted [(a)]	347,880	$	4.82
Exercised [(b)]	(14,212)	$	4.51
Forfeited	(87,783)	$	19.32
Expired	(63,793)	$	23.96
Outstanding at December 31, 2012 [(c)]	**1,129,829**	**$**	**18.95**
Vested at December 31, 2012 [(d)]	**470,905**	**$**	**21.80**

(a) During the 24 days ended January 24, 2011, the 341 days ended December 31, 2011 and the year ended December 31, 2012, the weighted average grant date fair value of stock options granted was $8.1 million, $0.1 million and $0.7 million, respectively. For purposes of determining compensation expense, the grant date fair value per share of the stock options was estimated using the Black-Scholes option pricing model which requires the use of various assumptions including the expected life of the option, expected dividend rate, expected volatility and risk-free interest rate. Key assumptions used for determining the fair value of stock options granted were as follows:

			Predecessor Company
	Year Ended December 31, 2012	Three Hundred Forty-One Days Ended December 31, 2011	Twenty-Four Days Ended January 24, 2011
Expected life (1)	5.75 - 6 years	10 years	5.75 years
Expected dividend (2)	—	—	—
Expected volatility (3)	45%	45%	45%
Risk-free interest rate (4)	0.82% - 1.21%	2.29% & 3.17%	2.37%

(1) The 5.75-year and 6.00-year expected lives (estimated period of time outstanding) of stock options granted was estimated using the ‘Simplified Method' which utilizes the midpoint between the vesting date and the end of the contractual term. This method was utilized for the stock options due to the lack of historical exercise behavior of the Company's employees. The 10.00-year expected life of stock options granted during the 341 days ended December 31, 2011 was based on an expectation of the estimated period of time the Company believed the stock options granted to an employee during this time period would be outstanding upon an analysis of stock options' strike price.

(2) For all stock options granted during 2011 and 2012, no dividends are expected to be paid over the contractual term of the stock options resulting in the use of a zero expected dividend rate.

(3) The expected volatility rate is based on the observed historical and implied volatilities of comparable companies, which were adjusted to account for the various differences between the comparable companies and the Company.

(4) The risk-free interest rate is specific to the date of grant. On the Effective Date, the risk-free interest rate was interpolated from the yields on the 5-year and 7-year United States Treasury bonds. For stock options granted after the Effective Date, the risk-free interest rate is based on the United States Treasury 10-year constant maturity market yield in effect at the time of the grant.

(b) During the year ended December 31, 2012, the total intrinsic value of stock options that were exercised was negligible.

(c) Based upon a fair market value of the Common Stock as of December 31, 2012 of $7.95 per share, the outstanding stock options, including those options that have and have not vested, have an aggregate intrinsic value (equal to the value of in-the-money stock options above their respective exercise price) of $1.0 million and a weighted average remaining contractual life of 8.3 years.

(d) Based upon a fair market value of the Common Stock as of December 31, 2012 of $7.95 per share, the vested stock options have an aggregate intrinsic value of $0.2 million and a weighted average remaining contractual life of 7.9 years.

Based upon the respective grant fair value, the aggregate fair value of stock options that vested during the 24 days ended January 24, 2011, the 341 days ended December 31, 2011 and the year ended December 31, 2012 was $2.0 million, $0.1 million and $2.0 million, respectively.

Restricted Stock Awards. Restricted stock award activity under the Long Term Incentive Plan is summarized as follows:

	Awards Outstanding		Weighted Average Grant Date Fair Value Per Share
Non-vested at January 24, 2011 (Predecessor Company)	—		—
Granted [a]	547,792	$	18.53
Vested [b]	(187,044)		18.53
Forfeited	—		—
Non-vested at January 24, 2011 (Post-emergence entity)	**360,748**	**$**	**18.53**
Granted [a]	13,800	$	11.52
Vested [b]	(4,900)		17.87
Forfeited	(17,650)		18.53
Non-vested at December 31, 2011	**351,998**	**$**	**18.26**
Granted [a]	30,000	$	5.51
Vested [b]	(116,202)	$	18.26
Forfeited	(21,550)	$	18.49
Non-vested at December 31, 2012	**244,246**	**$**	**16.65**

(a) Except for the restricted stock awards granted on the Effective Date, the grant date fair value per share of the restricted stock awards under the Long Term Incentive Plan is calculated as the fair market value per share of the Common Stock on the date of grant. The grant date fair value per share of the restricted stock awarded on the Effective Date is equal to the fair value per share of the Company's Common Stock calculated in conjunction with fresh start accounting. During the 24 days ended January 24, 2011, the 341 days ended December 31, 2011 and the year ended December 31, 2012, the weighted average grant date fair value of restricted stock awards granted was $10.2 million, $0.2 million and $0.2 million, respectively.

(b) Based upon the respective grant date fair value, the aggregate fair value of restricted stock which vested during the 24 days ended January 24, 2011, the 341 days ended December 31, 2011 and the year ended December 31, 2012 was $3.5 million, $0.1 million and $2.1 million, respectively.

Stock-Based Compensation Plans of the Predecessor Company

Prior to the Effective Date, the Company had stock options, stock units, non-vested stock and restricted stock activity under various stock-based compensation plans of the Predecessor Company. The pre-tax stock compensation expense recognized during the year ended December 31, 2010 was approximately $0.5 million. Pre-tax stock compensation expense recognized during the 24 days ended January 24, 2011 for the Predecessor Company was immaterial.

Pursuant to the Plan, all then outstanding equity interests of the Company, including but not limited to all outstanding shares of Common Stock, options and contractual or other rights to acquire any equity interests, were canceled and extinguished on the Effective Date.

(15) Quarterly Financial Information (Unaudited)

The quarterly information presented below represents selected quarterly financial results for the quarter ended March 31, 2012, the 24 days ended January 24, 2011, the 66 days ended March 31, 2011 and the quarters ended June 30, September 30 and December 31, 2012 and 2011 (in thousands, except per share data).

2012:		**First Quarter**		**Second Quarter**		**Third Quarter**		**Fourth Quarter**
Revenue	$	248,474	$	243,453	$	242,052	$	239,670
Reorganization income (expense)		1,392		2,823		(172)		(377)
Net loss		(46,712)		(37,073)		(37,329)		(32,180)
Loss per share:								
Basic	$	(1.80)	$	(1.43)	$	(1.44)	$	(1.24)
Diluted		(1.80)		(1.43)		(1.44)		(1.24)

2011:	Predecessor Company Twenty-Four Days Ended January 24	Sixty-Six Days Ended March 31	Second Quarter	Third Quarter	Fourth Quarter
Revenue	$ 66,378	$ 188,402	$ 262,636	$ 257,912	$ 254,162
Reorganization income (expense)	897,313	(2,736)	(2,510)	3,735	1,743
Impairment of goodwill and trade name	—	—	—	(262,019)	—
Net income loss	586,907	(24,423)	(27,097)	(279,441)	(83,984)
Income (loss) per share:					
Basic	$ 6.56	$ (0.95)	$ (1.05)	$ (10.81)	$ (3.25)
Diluted	6.54	(0.95)	(1.05)	(10.81)	(3.25)

(16) Business Concentrations

Geographic

As of December 31, 2012, approximately 85% of the Company's access line equivalents were located in Maine, New Hampshire and Vermont. As a result of this geographic concentration, the 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 Company's services and resulting loss of access line equivalents which could have a material adverse effect on the Company's business, financial condition, results of operations, liquidity and/or the market price of the Company's outstanding securities.

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

Labor

As of December 31, 2012, we employed a total of 3,369 employees, 2,161, or 64%, of whom were covered by 15 collective bargaining agreements. As of December 31, 2012, 111 of our employees were covered by seven collective bargaining agreements that expire during 2013.

(17) Operational Restructuring Charges

During the 341 days ended December 31, 2011, the Company announced plans to reduce its workforce to ensure that the Company is staffed at a level appropriate to serve its customers, while prudently managing expenses. The reduction eliminated approximately 400 positions. In connection with this plan, the Company recognized $7.9 million in restructuring charges, consisting of severance and one-time incentive payments, which are included within cost of services and sales and selling, general and administrative expense in the consolidated statement of operations.

(18) Asset Held for Sale

On November 28, 2012, the Company entered into an agreement to sell the capital stock of its Idaho-based operations to Blackfoot Telecommunications Group ("Blackfoot") of Missoula, Montana for approximately $30 million in gross cash proceeds. The closing of the transaction was completed on January 31, 2013. Eleven FairPoint employees joined the Blackfoot organization at closing.

In accordance with the Property, Plant and Equipment Topic of the ASC, the Idaho-based operations' assets and liabilities have been classified as held for sale and, consistent with the Presentation of Financial Statements Topic of the ASC, are recorded as single line items in the current asset and current liability sections of the consolidated balance sheet at December 31, 2012. A summary of assets and liabilities held-for-sale at December 31, 2012 is as follows (in thousands):

	December 31, 2012
Assets held for sale:	
Accounts receivable, net	$ 261
Prepaid expenses	37
Other current assets	3
Property, plant and equipment (net of $4.6 million accumulated depreciation)	6,441
Other assets	5,807
Total assets held for sale	**$ 12,549**
Liabilities held for sale:	
Accounts payable	$ 137
Other accrued liabilities	148
Other long-term liabilities	122
Total liabilities held for sale	**$ 407**

The financial impact of the Idaho-based operations are immaterial to the financial results of the consolidated Company and therefore have not been segregated as discontinued operations in the statements of operations. Revenue and income before income taxes of the Idaho-based operations for the year ended December 31, 2012, the 341 days ended December 31, 2011, the 24 days ended January 24, 2011 and the year ended December 31, 2010 are as follows (in thousands):

			Predecessor Company	
	Year Ended December 31, 2012	Three Hundred Forty-One Days Ended December 31, 2011	Twenty-Four Days Ended January 24, 2011	Year Ended December 31, 2010
Revenue	$ 7,874	$ 7,745	$ 626	$ 9,404
Income before income taxes	3,813	3,363	3,420	5,980

(19) Commitments and Contingencies

(a) Leases

The Company currently leases real estate and fleet vehicles under capital and operating leases expiring through the year ending 2019. The Company accounts for leases using the straight-line method, which amortizes contracted total payments evenly over the lease term.

Future minimum lease payments under capital leases and non-cancelable operating leases as of December 31, 2012 are as follows (in thousands):

	Capital Leases	Operating Leases
Year ending December 31:		
2013	$ 1,499	$ 10,523
2014	1,493	8,807
2015	105	5,739
2016	—	3,730
2017	—	2,507
Thereafter	—	1,321
Total minimum lease payments	**$ 3,097**	**$ 32,627**
Less: interest and executory cost	(407)	
Present value of minimum lease payments	**2,690**	
Less: current installments	(1,220)	
Long-term obligations at December 31, 2012	**$ 1,470**	

Total rent expense was $12.5 million, $14.5 million, $1.0 million and $15.6 million for the year ended December 31, 2012, the 341 days ended December 31, 2011, the 24 days ended January 24, 2011 and the year ended December 31, 2010, respectively.

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

(b) Legal Proceedings

From time to time, the Company is involved in litigation and regulatory proceedings arising out of its operations. The Company's management believes that it is not currently a party to any legal or regulatory proceedings, the adverse outcome of which, individually or in the aggregate, would have a material adverse effect on the Company's financial position or results of operations. Notwithstanding that the Company emerged from Chapter 11 protection on the Effective Date, one of the Chapter 11 Cases is still being resolved.

On the Petition Date, FairPoint Communications and substantially all of its direct and indirect subsidiaries filed voluntary petitions for relief under the Chapter 11 Cases. On January 13, 2011, the Bankruptcy Court entered the Confirmation Order, which confirmed the Plan. On the Effective Date, the Company substantially consummated the reorganization through a series of transactions contemplated by the Plan and the Plan became effective pursuant to its terms.

On June 30, 2011 and on November 7, 2012, the Bankruptcy Court entered final decrees closing certain of the Company's bankruptcy cases due to such cases being fully administered. Of the 80 original bankruptcy cases, only the Chapter 11 Case of Northern New England Telephone Operations LLC (Case No. 09-16365) remains open.

(c) Service Quality Penalties

The Company's Northern New England operations are, or in the case of New Hampshire, were, subject to certain retail service quality plans in Maine, New Hampshire and Vermont pursuant to which the Company incurs SQI penalties resulting from the Company's failure to meet certain benchmarks for operating performance metrics set forth in the respective plans. The retail service quality plan in New Hampshire was eliminated effective August 10, 2012. Penalties resulting from these commitments are recorded as a reduction to revenue and the Merger Orders or subsequent regulation plan in each state provide that any SQI penalties assessed under the plans be paid by the Company in the form of credits applied to retail customer bills. However, as the result of separate orders in New Hampshire and Vermont issued in 2012, certain previously assessed SQI penalties in each respective state may be used for expansion of broadband services to unserved and underserved areas in those states as described below.

As of December 31, 2012 and 2011, the Company has an estimated liability of $2.1 million and $7.5 million, respectively, for SQI penalties based on the Company's actual results relative to the benchmarks for the operating performance metrics set forth in the respective retail service quality plans. Of the estimated December 31, 2011 liability, $3.9 million was included in other accrued liabilities, while the remainder was included in the Claims Reserve. None of the liability is recorded in the Claims Reserve as of December 31, 2012.

All penalties incurred under Maine's retail service quality plan through the plan year ended July 31, 2011 have been issued as credits to residential customers. For the plan year ended July 31, 2012, the Company incurred $1.7 million in Maine SQI penalties, which will be issued in the form of credits applied to retail customers' bills in the amount of $0.48 per access line per month over the twelve months beginning in December 2012.

During the quarter ended March 31, 2012, the Vermont Public Service Board ("VPSB") approved the Company's request to use $2.5 million of SQI penalties incurred under the Vermont retail service quality plan (of which approximately $1.1 million was included in the Claims Reserve at December 31, 2011) to deploy broadband into unserved areas. These SQI penalties were reclassified to other accrued liabilities upon the VPSB's approval to utilize these penalties for an alternative use.

In New Hampshire, as the result of a New Hampshire PUC ("NHPUC") recommendation and the approval by the governor and executive council of New Hampshire of a certain broadband expansion agreement, the Company has received authorization to move forward with the next phase of developing a detailed engineering plan for use of $2.8 million in SQI penalties incurred under the New Hampshire retail service quality plan (of which approximately $2.4 million was included in the Claims Reserve at December 31, 2011), together with another $0.5 million of Company funds, to build out broadband connections to customers in rural areas beyond the commitments made in the New Hampshire Merger Order. On January 29, 2013, the NHPUC approved the Company's detailed engineering plan in its entirety. As of December 31, 2012, these SQI penalties were reclassified to other accrued liabilities given the NHPUC's approval to utilize these penalties for an alternative use.

Based on the Company's current estimate of its SQI penalties in the Northern New England operations, changes in the accrual impacting revenue and payments are as follows (in thousands):

			Predecessor Company	
	Year Ended December 31, 2012	Three Hundred Forty-One Days Ended December 31, 2011	Twenty-Four Days Ended January 24, 2011	Year Ended December 31, 2010
Increase (decrease) in liability recorded as a reduction (increase) to revenue	$ 197	$ (4,145)	$ 401	$ (952)
SQI penalties paid out in the form of customer rebates	$ (242)	$ (8,921)	$ (631)	$ (5,750)

(d) Performance Assurance Plan Credits

As part of the Merger Orders, the Company adopted a separate PAP that measures the Company's performance in the provision of wholesale services to CLECs in Maine, New Hampshire and Vermont. Penalties resulting from failure to meet the specified performance standards as defined in the provisions of the separate plans in each state are recorded as a reduction to revenue and, in general, are issued in the form of credits applied to affected CLEC bills. However, as a result of a Vermont order in 2012, certain previously assessed PAP penalties in Vermont will be used for expansion of broadband services to unserved areas of Vermont as described below.

As of December 31, 2012 and 2011, the Company has recorded a reserve of $1.4 million and $4.9 million, respectively, for the estimated amount of PAP penalties incurred that have not yet been credited to CLECs. Penalties assessed in Maine and New Hampshire are recorded as a reduction to accounts receivable since they are paid by the Company in the form of credits applied to CLEC bills. Penalties for Vermont are recorded as liabilities since a significant portion of these penalty amounts are paid to the VUSF, while the remaining credits assessed in Vermont are paid by the Company in the form of credits applied to CLEC bills. At December 31, 2011, $4.1 million of the total reserve was recorded in the Claims Reserve. None of the reserve is recorded in the Claims Reserve as of December 31, 2012.

During the quarter ended March 31, 2012, the VPSB approved the Company's request to use $4.1 million of certain accrued PAP penalties (all of which were included in the Claims Reserve at December 31, 2011) to deploy broadband into unserved areas. These PAP penalties were reclassified to other accrued liabilities upon the VPSB's approval to utilize these penalties for an alternative use.

Based on the Company's current estimate of its PAP penalties in the Northern New England operations, changes in the accrual impacting revenue and payments are as follows (in thousands):

	Year Ended December 31, 2012	Three Hundred Forty-One Days Ended December 31, 2011	Predecessor Company Twenty-Four Days Ended January 24, 2011	Predecessor Company Year Ended December 31, 2010
Increase in estimated reserve recorded as a reduction to revenue	$ 3,186	$ 1,086	$ 629	$ 7,160
PAP credits paid out	$ (2,504)	$ (4,778)	$ (531)	$ (12,421)

During early 2011, the NHPUC ordered an audit of the Company's existing PAP in the state of New Hampshire, which commenced in October 2011 and is ongoing. The existing PAP in Maine and Vermont may also be subject to audit, as determined by the Maine PUC and the VPSB, respectively.

(e) Restricted Cash

As of December 31, 2012, the Company had $7.5 million of restricted cash, of which $0.7 million is reserved for the Cash Claims Reserve, $2.8 million is reserved for broadband build-out in Vermont, $3.3 million is reserved for broadband build-out in New Hampshire and $0.7 million is restricted for other purposes.

During 2012, the balance of the Cash Claims Reserve decreased due to the release of over-reserved funds during the fiscal year as outstanding bankruptcy claims were favorably settled, cash distributions to settle outstanding bankruptcy claims and the transfer of restricted funds for another purpose, specifically for broadband build-out in Vermont and New Hampshire. For further information on the establishment of restricted funds set aside for broadband build-out in Vermont and New Hampshire, *see* "—(c) Service Quality Penalties" and "—(d) Performance Assurance Plan Credits" herein. During 2012, $3.8 million of restricted cash reserved for broadband build-out in Vermont was utilized, while none of the restricted funds for the broadband build-out in New Hampshire have been used pending the NHPUC's approval of the Company's detailed engineering plan, which did not occur until January 29, 2013.

(f) Capital Expenditure Obligations

Under a regulatory settlement in New Hampshire, the Company is required to make certain capital expenditures in New Hampshire. Beginning from the date of the Merger, the Company is required to spend $285.4 million through March 31, 2013 in New Hampshire, of which the spend requirement was exceeded during fiscal year 2012.

(20) Subsequent Events

(a) February 2013 Refinancing

On February 14, 2013 (the "Refinancing Closing Date"), the Company refinanced the Old Credit Agreement Loans (the "Refinancing"). In connection with the Refinancing, the Company (i) issued $300.0 million aggregate principal amount of its 8.75% senior secured notes due 2019 (the "Notes") in a private offering exempt from registration under the Securities Act pursuant to an indenture (the "Indenture") that the Company entered into on the Refinancing Closing Date with certain of its subsidiaries that guarantee the indebtedness under the New Credit Agreement (as defined below) (the "Subsidiary Guarantors") and U.S. Bank National Association, as trustee (in such capacity, the "Notes Trustee") and collateral agent, and (ii) entered into a new credit agreement (the "New Credit Agreement"), dated as of the Refinancing Closing Date, with the lenders party thereto from time to time (the "Lenders") and Morgan Stanley Senior Funding, Inc., as administrative agent (in such capacity, the "Administrative Agent") and letter of credit issuer. The New Credit Agreement provides for a $75.0 million revolving credit facility (the "New Revolving Facility") and a $640.0 million term loan facility (the "New Term Loan" and, together with the New Revolving Facility, the "New Credit Agreement Loans"). On the Refinancing Closing Date, the Company used the proceeds of the Notes offering, together with $640.0 million of borrowings under the New Term Loan and cash on hand to (i) repay principal of $946.5 million outstanding on the Old Term Loan, plus an additional approximately $7.7 million of accrued interest and (ii) pay approximately $33.0 million of fees, expenses and other costs relating to the Refinancing.

The New Credit Agreement. In connection with the Refinancing, the Company entered into the New Credit Agreement, which provides for the $75.0 million New Revolving Facility and the $640.0 million New Term Loan. The New Credit Agreement Loans replace the Old Credit Agreement Loans, which were terminated on the Refinancing Closing Date. The principal amount of the New Term Loan and commitments under the New Revolving Facility may be increased by an aggregate amount of up to

$200.0 million, subject to certain terms and conditions specified in the New Credit Agreement. The New Term Loan will mature on February 14, 2019, and the New Revolving Facility will mature on February 14, 2018, subject in each case to extensions pursuant to the terms of the New Credit Agreement.

Interest Rates and Fees. Interest on borrowings under the New Credit Agreement Loans accrue at an annual rate equal to either LIBOR or the base rate, in each case plus an applicable rate. LIBOR is the per annum rate reported by Reuters for dollar deposits with an interest period of one, two, three or six months (at the Company's election) in the London interbank market, with a minimum LIBOR floor of 1.25% for the New Term Loan. The base rate for any date is the per annum rate equal to the greatest of (x) the federal funds effective rate plus 0.50%, (y) the rate of interest publicly quoted from time to time by The Wall Street Journal as the United States "Prime Rate" and (z) LIBOR with an interest period of one month plus 1.00%. The applicable rate for the New Term Loan is (a) 6.25% per annum with respect to term loans bearing interest based on LIBOR, or (b) 5.25% per annum with respect to term loans bearing interest based on the base rate. The applicable rate for the New Revolving Facility is, initially, (a) 5.50% with respect to revolving loans bearing interest based on LIBOR, or (b) 4.50% per annum with respect to revolving loans bearing interest based on the base rate, in each case subject to adjustment after March 31, 2013 based on the Company's consolidated total leverage ratio, as defined in the New Credit Agreement. The Company is required to pay a per annum letter of credit fee on the average daily amount available to be drawn under letters of credit issued under the New Revolving Facility equal to the applicable rate for revolving loans bearing interest based on LIBOR, calculated on a quarterly basis and payable quarterly in arrears, plus a fronting fee of 0.125% per annum on the average daily amount available to be drawn under such letters of credit, also calculated on a quarterly basis and payable quarterly in arrears, and the customary issuance, presentation, amendment and other processing fees, and other standard costs and charges, of the letter of credit issuer. In addition, the Company is required to pay a per annum commitment fee on the average daily unused portion of the New Revolving Facility, which is 0.50% initially, subject to reduction to 0.375% after March 31, 2013 based on the Company's consolidated total leverage ratio, calculated on a quarterly basis and payable quarterly in arrears.

Security/Guarantors. All obligations under the New Credit Agreement, together with designated hedging obligations and cash management obligations incurred with a counterparty that was a Lender, an arranger or an affiliate of a Lender or an arranger at the time the applicable hedge agreement or cash management agreement was entered into, are unconditionally guaranteed on a senior secured basis by each of the Subsidiary Guarantors and secured by a first-priority lien on substantially all personal property of the Company and the Subsidiary Guarantors, subject to certain exclusions set forth in the related security documents, pari passu with the lien securing the obligations under the Notes. The New Credit Agreement requires the Company, upon the formation or acquisition of any new direct or indirect subsidiary, unless such subsidiary is not a material subsidiary or is designated as an unrestricted subsidiary, as defined in the New Credit Agreement, to cause such subsidiary to become a guarantor and grant a first-priority lien on substantially all of its assets to secure the obligations under the New Credit Agreement and the designated hedging obligations and cash management obligations, subject to certain significant exceptions and limitations, including if such subsidiary is prohibited by applicable law from guaranteeing such obligations or providing any security for such obligations without the consent of a public utility commission, public service commission or similar agency or commission, the FCC or any other governmental authority having jurisdiction over such subsidiary or is subject to regulatory approvals or regulatory restrictions on borrowings or issuances of guaranties of debt for borrowed money or the granting of liens on its assets or equity interests.

Mandatory Repayments. The Company is required to make quarterly repayments of the New Term Loan in a principal amount equal to $1.6 million during the term of the New Credit Agreement, beginning June 30, 2013, with such repayments being reduced based on the application of mandatory and optional prepayments of the New Term Loan made from time to time. In addition, subject to certain important exceptions and limitations set forth in the New Credit Agreement, amounts due under the New Credit Agreement are mandatorily repayable with (i) a percentage, initially equal to 50% and subject to reduction to 25% in subsequent fiscal years based on the Company's consolidated total leverage ratio, of the Company's excess cash flow, as defined in the New Credit Agreement, beginning with the fiscal year ending December 31, 2013, (ii) the net cash proceeds of certain asset dispositions, insurance proceeds and condemnation awards in excess of a threshold amount per annum and subject to significant reinvestment rights and (iii) issuances of debt not permitted to be incurred under the New Credit Agreement. Optional prepayments of the New Term Loan and mandatory prepayments of the New Term Loan resulting from the incurrence of debt not permitted to be incurred under the New Credit Agreement, in each case made on or prior to February 14, 2016, are required to be made at (i) 103.0% of the aggregate principal amount of the New Term Loan so prepaid if such prepayment is made on or prior to February 14, 2014, (ii) 102.0% of the aggregate principal amount of the New Term Loan so prepaid if such prepayment is made after February 14, 2014, but on or prior to February 14, 2015, and (iii) 101.0% of the aggregate principal amount of the New Term Loan so prepaid if such prepayment is made after February 14, 2015 and on or prior to February 14, 2016. No prepayment premium is required to be paid with respect to any optional prepayment of the New Term Loan or any mandatory prepayment of the New Term Loan resulting from the incurrence of debt not permitted to be incurred under the New Credit Agreement, in each case made after February 14, 2016.

Covenants. The New Credit Agreement contains customary representations and warranties and affirmative and negative covenants for a transaction of this type, including two financial maintenance covenants: (i) a consolidated interest coverage ratio, and (ii) a consolidated total leverage ratio. Each of these covenants are as defined in the New Credit Agreement and determined on a pro forma basis after giving effect to voluntary prepayments of debt, dispositions of material assets outside of the ordinary course of business and certain investments, including acquisitions permitted to be incurred under the New Credit Agreement. The New Credit Agreement also contains a covenant limiting the maximum amount of capital expenditures that the Company and its subsidiaries may make in any fiscal year, subject to significant exceptions and carryover rights.

Events of Default. The New Credit Agreement also contains customary events of default for a transaction of this type.

The Notes. On the Refinancing Closing Date, the Company issued $300.0 million in aggregate principal amount of the Notes in a private offering exempt from registration under the Securities Act pursuant to the Indenture.

The terms of the Notes are governed by the Indenture. The Notes are senior secured obligations of the Company and are guaranteed by the Subsidiary Guarantors. The Notes and the guarantees thereof are secured by a first-priority lien on substantially all personal property of the Company and the Subsidiary Guarantors, subject to certain exclusions set forth in the related security documents, pari passu with the lien securing the obligations under the New Credit Agreement. The Notes will mature on August 15, 2019 and accrue interest at a rate of 8.75% per annum, which is payable semi-annually in arrears on February 15 and August 15, commencing on August 15, 2013.

On or after February 15, 2016, the Company may redeem all or part of the Notes at the redemption prices set forth in the Indenture, plus accrued and unpaid interest thereon, to the applicable redemption date. At any time prior to February 15, 2016, the Company may redeem all or part of the Notes at a redemption price equal to 100% of the principal amount of the Notes redeemed, plus a “make-whole” premium as of, and accrued and unpaid interest to, the applicable redemption date. In addition, at any time prior to February 15, 2016, the Company may, on one or more occasions, redeem up to 35% of the original aggregate principal amount of the Notes, using net cash proceeds of certain qualified equity offerings, at a redemption price of 108.75% of the principal amount of Notes redeemed, plus accrued and unpaid interest to the applicable redemption date.

The holders of the Notes have the ability to require the Company to repurchase all or any part of the Notes if the Company experiences certain kinds of changes in control or engage in certain asset sales, in each case at the repurchase prices and subject to the terms and conditions set forth in the Indenture.

The Indenture contains certain covenants which are customary with respect to non-investment grade debt securities, including limitations on the Company's ability to incur additional indebtedness, pay dividends on or make other distributions or repurchase the Company's capital stock, make certain investments, enter into certain types of transactions with affiliates, create liens and sell certain assets or merge with or into other companies. These covenants are subject to a number of important limitations and exceptions.

The Indenture also provides for customary events of default, including cross defaults to other specified debt of the Company and certain of its subsidiaries. In the case of an event of default arising from specified events of bankruptcy or insolvency, all outstanding Notes will become due and payable immediately without further action or notice. If any other event of default occurs and is continuing, the Notes Trustee or holders of at least 25% in principal amount of the then outstanding Notes may declare all the Notes to be due and payable immediately. In the case of a declaration of the acceleration of the Notes because an event of default has occurred as a result of a cross default on the Company or its subsidiaries' other specified debt, the declaration of acceleration of the Notes will be automatically annulled if the holders of all such other specified debt have rescinded the declaration of acceleration in respect of such other debt.

(b) Closing of Idaho Sale

Effective January 31, 2013, the Company completed the sale of the capital stock of its Idaho-based operations to Blackfoot Telecommunications Group of Missoula, Montana for approximately $30 million in gross cash proceeds. The Company expects to record a gain on the sale during the quarter ended March 31, 2013; however, a preliminary estimate of the gain is not available at this time.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

ITEM 9A. CONTROLS AND PROCEDURES

(a) Evaluation of Disclosure Controls and Procedures

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

Based upon this evaluation, our principal executive officer and principal financial officer have concluded that our disclosure controls and procedures were effective as of December 31, 2012.

(b) Changes in Internal Control Over Financial Reporting

We are committed to continuing to improve our internal control processes and will continue to review our financial reporting controls and procedures. As we continue to evaluate and work to improve our internal control over financial reporting, we may identify additional measures to address previous material weaknesses and other deficiencies. Our management, with the oversight of the audit committee of our board of directors, will continue to assess and take steps to enhance the overall design and capability of our control environment in the future.

During the year ended December 31, 2012, our management completed the following improvements in internal control:

- Improved income tax processes, resulting in remediation of the previously identified material weakness (as described below).
- Began utilizing our enterprise resource planning ("ERP") system for the calculation of depreciation on assets which are in service in the ERP system.
- Implemented additional bill review procedures related to contract-based billing for certain products to improve billing accuracy.

(c) Remediation of Material Weaknesses in Internal Control Over Financial Reporting

During the year ended December 31, 2012, our management completed corrective actions to remediate the material weakness identified in our 2011 Annual Report on Form 10-K and our quarterly reports on Form 10-Q for the quarters ending March 31, 2012, June 30, 2012 and September 30, 2012. Specifically, the following actions were taken with respect to the following identified material weakness:

Procedures for the review of our income tax provision and supporting schedules were not adequate to identify and correct errors in a timely manner.

To resolve this issue, the following improvements were implemented:

- Utilized KPMG to assist with the preparation and review of the income tax provision and related schedules.
- Hired an experienced tax director to provide additional oversight and review over tax-related processes.
- Accelerated the preparation of quarterly and year-end provisions and related schedules to allow more time for detailed reviews.
- Increased automation of book and tax depreciation.
- Increased involvement of accounting management in evaluation and determination of depreciation projections.

With the exception of the foregoing remediation actions and the changes described in the previous section, there have been no changes in our internal control over financial reporting during the year ended December 31, 2012 that have materially affected or are reasonably likely to materially affect our internal control over financial reporting.

See "Item 8. Financial Statements and Supplementary Data" included elsewhere in this Annual Report for the Report of Management on Internal Control over Financial Reporting and the Report of Independent Registered Public Accounting Firm on Internal Control over Financial Reporting, each of which is incorporated herein by reference.

ITEM 9B. OTHER INFORMATION

Not applicable.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

The information required by Items 401, 405, 406 and 407(c)(3), (d)(4) and (d)(5) of Regulation S-K is incorporated herein by reference to our definitive proxy statement to be filed with the SEC pursuant to Regulation 14A under the Exchange Act.

ITEM 11. EXECUTIVE COMPENSATION

The information required by Item 402 and paragraph (e)(4) and (e)(5) of Item 407 of Regulation S-K is incorporated herein by reference to our definitive proxy statement to be filed with the SEC pursuant to Regulation 14A under the Exchange Act.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

The information required by Item 403 of Regulation S-K is incorporated herein by reference to our definitive proxy statement to be filed with the SEC pursuant to Regulation 14A under the Exchange Act. The information required by Item 201(d) of Regulation S-K is incorporated herein by reference to "Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities—Securities Authorized for Issuance under Equity Compensation Plans" included elsewhere in this Annual Report.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

The information required by Items 404 and 407(a) of Regulation S-K is incorporated herein by reference to our definitive proxy statement to be filed with the SEC pursuant to Regulation 14A under the Exchange Act.

ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

The information required by Item 9(e) of Schedule 14A is incorporated herein by reference to our definitive proxy statement to be filed with the SEC pursuant to Regulation 14A under the Exchange Act.

PART IV

ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES

(a) Financial Statements

The financial statements filed as part of this Annual Report are listed in the index to the financial statements under "Item 8. Financial Statements and Supplementary Data" included elsewhere in this Annual Report, which index to the financial statements is incorporated herein by reference.

(b) Exhibits

The exhibits filed as part of this Annual Report are listed in the index to exhibits found hereafter, which index to exhibits is incorporated herein by reference.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

FAIRPOINT COMMUNICATIONS, INC.

By: /s/ Paul H. Sunu Date: March 7, 2013
Paul H. Sunu, Chief Executive Officer and Director

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

By: /s/ Paul H. Sunu Date: March 7, 2013
Paul H. Sunu, Chief Executive Officer and Director
(Principal Executive Officer)

By: /s/ Ajay Sabherwal Date: March 7, 2013
Ajay Sabherwal, Executive Vice President and Chief Financial Officer
(Principal Financial Officer)

By: /s/ John T. Hogshire Date: March 7, 2013
John T. Hogshire, Vice President and Controller
(Principal Accounting Officer)

By: /s/ Dennis J. Austin Date: March 7, 2013
Dennis J. Austin, Director

By: /s/ Peter C. Gingold Date: March 7, 2013
Peter C. Gingold, Director

By: /s/ Edward D. Horowitz Date: March 7, 2013
Edward D. Horowitz, Chairman of the Board of Directors

By: /s/ Michael J. Mahoney Date: March 7, 2013
Michael J. Mahoney, Director

By: /s/ Michael K. Robinson Date: March 7, 2013
Michael K. Robinson, Director

By: /s/ David L. Treadwell Date: March 7, 2013
David L. Treadwell, Director

By: /s/ Wayne Wilson Date: March 7, 2013
Wayne Wilson, Director

Table of Contents

Exhibit Index

Exhibit No.	Description
2.1	Third Amended Joint Plan of Reorganization Under Chapter 11 of the Bankruptcy Code.(1)
3.1	Ninth Amended and Restated Certificate of Incorporation of FairPoint.(2)
3.2	Second Amended and Restated By Laws of FairPoint.(2)
4.1	Warrant Agreement, dated as of January 24, 2011, by and between FairPoint and The Bank of New York Mellon.(3)
4.2	Specimen Stock Certificate.(2)
4.3	Specimen Warrant Certificate.(3)
4.4	Indenture, dated as February 14, 2013, among FairPoint Communications, Inc., the Subsidiary Guarantors and U.S. Bank National Association, as trustee. (21)
10.1	Credit Agreement, dated as of January 24, 2011, by and among FairPoint, FairPoint Logistics, Bank of America, N.A., as administrative agent, the other lenders party thereto and Banc of America Securities LLC, as sole lead arranger and sole book manager.(3)
10.2	First Amendment to Credit Agreement, dated as of November 13, 2012, among FairPoint Communications, Inc., FairPoint Logistics, Inc., Bank of America, N.A., as administrative agent, and the lenders signatory thereto. (20)
10.3	Pledge Agreement, dated as of January 24, 2011, made by the pledgors party thereto in favor of Bank of America, N.A. as administrative agent, for the benefit of certain secured parties.(3)
10.4	Security Agreement, dated as of January 24, 2011, among FairPoint Communications, FairPoint Logistics, the subsidiaries of FairPoint party thereto and Bank of America, N.A., as administrative agent.(3)
10.5	Continuing Guaranty, dated as of January 24, 2011, made by and among the guarantors party thereto in favor of Bank of America, N.A., as administrative agent, for the benefit of certain secured parties.(3)
10.6	Credit Agreement, dated as of February 14, 2013, among FairPoint Communications, Inc., the lenders party thereto from time to time and Morgan Stanley Senior Funding, Inc., as administrative agent and letter of credit issuer. (21)
10.7	Pledge Agreement, dated as of February 14, 2013, made by the pledgors party thereto in favor of Morgan Stanley Senior Funding, Inc., as administrative agent, for the benefit of certain secured parties. (21)
10.8	Security Agreement, dated as of February 14, 2013, by and among the Company, the subsidiaries of the Company party thereto and Morgan Stanley Senior Funding, Inc., as administrative agent. (21)
10.9	Continuing Guaranty Agreement, dated as of February 14, 2013, made by and among the guarantors party thereto in favor of Morgan Stanley Senior Funding, Inc., as administrative agent, for the benefit of certain secured parties. (21)
10.10	Registration Rights Agreement, dated as of January 24, 2011, by and between FairPoint Communications, Inc. and Angelo, Gordon & Co., L.P.(3)
10.11	FairPoint Litigation Trust Agreement, dated as of January 24, 2011.(3)
10.12	Form of Director Indemnity Agreement.(4)
10.13	Amended and Restated Tax Sharing Agreement, dated as of November 9, 2000, by and among FairPoint and its Subsidiaries.(5)
10.14	Employment Agreement, dated as of August 16, 2010, by and between FairPoint and Paul H. Sunu.†(6)
10.15	Change in Control and Severance Agreement, dated as of March 14, 2007, by and between FairPoint and Peter G. Nixon. †(7)
10.16	Change in Control and Severance Agreement, dated as of March 14, 2007, by and between FairPoint and Shirley J. Linn. †(7)

Exhibit No.	Description
10.17	Change in Control and Severance Agreement, dated as of July 19, 2010, by and between FairPoint and Ajay Sabherwal. †(6)
10.18	Employment Agreement, made and entered into as of January 22, 2013, by and between FairPoint Communications, Inc. and Ajay Sabherwal. †*
10.19	Employment Agreement, made and entered into as of January 22, 2013, by and between FairPoint Communications, Inc. and Shirley J. Linn. †*
10.20	Employment Agreement, made and entered into as of January 22, 2013, by and between FairPoint Communications, Inc. and Peter G. Nixon. †*
10.21	Employment Agreement, dated as of July 1, 2011, by and between FairPoint and Kathleen McLean. †(18)
10.22	Employment Agreement, made and entered into as of November 15, 2012, by and between FairPoint Communications, Inc. and Anthony A. Tomae. †*
10.23	FairPoint Communications, Inc. 2010 Long Term Incentive Plan.†(1)
10.24	Form of Restricted Share Award Agreement—FairPoint Communications, Inc. 2010 Long Term Incentive Plan.†(1)
10.25	FairPoint Communications, Inc. Incentive Recoupment Policy. †(19)
10.26	Stipulation filed with the Maine Public Utilities Commission, dated December 12, 2007.(8)
10.27	Amended Stipulation filed with the Maine Public Utilities Commission dated December 21, 2007(9)
10.28	Stipulation filed with the Vermont Public Service Board, dated January 8, 2008.(10)
10.29	Stipulation filed with the New Hampshire Public Utilities Commission, dated January 23, 2008.(11)
10.30	Letter Agreement, dated as of March 30, 2008, by and between the Staff of the New Hampshire Public Utilities Commission and Verizon Communications Inc.(9)
10.31	Letter, dated as of May 12, 2009, from the Staff of the New Hampshire Public Utilities Commission to FairPoint.(12)
10.32	Post Filing Regulatory Settlement—New Hampshire, dated as of February 5, 2010, by and between FairPoint and New Hampshire Public Utilities Commission Staff Advocates.(1)
10.33	Post Filing Regulatory Settlement—Maine, dated as of February 9, 2010, by and among FairPoint, Maine Public Utilities Commission and Maine Office of the Public Advocate.(1)
10.34	Post Filing Regulatory Settlement—Vermont, dated as of February 5, 2010, by and between FairPoint and Vermont Department of Public Service.(1)
11	Statement Regarding Computation of Per Share Earnings (included in the financial statements contained in this Annual Report).
14.1	FairPoint Code of Business Conduct and Ethics.(17)
14.2	FairPoint Code of Ethics for Financial Professionals.(13)
21	Subsidiaries of FairPoint.*
23.1	Consent of Ernst & Young LLP.*
31.1	Certification as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.*
31.2	Certification as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.*
32.1	Certification required by 18 United States Code Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.‡
32.2	Certification required by 18 United States Code Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.‡
99.1	Order, dated January 13, 2011, Confirming Debtors' Third Amended Joint Plan of Reorganization Under Chapter 11 of the Bankruptcy Code, dated as of December 29, 2010.(1)

Exhibit No.	Description
99.2	Order of the Maine Public Utilities Commission, dated February 1, 2008.(14)
99.3	Order of the Vermont Public Service Board, dated February 15, 2008.(15)
99.4	Order of the New Hampshire Public Utilities Commission, dated February 25, 2008.(16)
99.5	FairPoint Insider Trading Policy.(17)
101.INS	XBRL Instance Document.**
101.SCH	XBRL Taxonomy Extension Schema Document.**
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document.**
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document.**

*	Filed herewith.
†	Indicates a management contract or compensatory plan or arrangement.
‡	Pursuant to SEC Release No. 33-8238, this certification will be treated as "accompanying" this Annual Report on Form 10-K and not "filed" as part of such report for purposes of Section 18 of the Exchange Act, or otherwise subject to the liability of Section 18 of the Exchange Act and this certification will not be deemed to be incorporated by reference into any filing under the Securities Act or the Exchange Act, except to the extent that the registrant specifically incorporates it by reference.
**	Pursuant to Rule 406T of Regulation S-T, this interactive data file is deemed not filed or part of a registration statement or prospectus for purposes of sections 11 and 12 of the Securities Act, is deemed not filed for purposes of section 18 of the Exchange Act, and otherwise is not subject to liability under these sections.
(1)	Incorporated by reference to the Current Report on Form 8-K of FairPoint filed on January 14, 2011.
(2)	Incorporated by reference to the Registration Statement on Form 8-A of FairPoint filed on January 24, 2011.
(3)	Incorporated by reference to the Current Report on Form 8-K of FairPoint filed on January 25, 2011, Film Number 11544980.
(4)	Incorporated by reference to the Current Report on Form 8-K of FairPoint filed on January 25, 2011, Film Number 11544991.
(5)	Incorporated by reference to the Quarterly Report on Form 10-Q of FairPoint for the period ended September 30, 2000.
(6)	Incorporated by reference to the Quarterly Report on Form 10-Q of FairPoint for the period ended September 30, 2010.
(7)	Incorporated by reference to the Current Report on Form 8-K of FairPoint filed on March 19, 2007.
(8)	Incorporated by reference to the Current Report on Form 8-K of FairPoint filed on December 13, 2007.
(9)	Incorporated by reference to the Current Report on Form 8-K of FairPoint filed on April 3, 2008.
(10)	Incorporated by reference to the Current Report on Form 8-K of FairPoint filed on January 8, 2008.
(11)	Incorporated by reference to the Current Report on Form 8-K of FairPoint filed on January 24, 2008.
(12)	Incorporated by reference to the Quarterly Report on Form 10-Q of FairPoint for the period ended June 30, 2009.
(13)	Incorporated by reference to the Annual Report on Form 10-K of FairPoint for the year ended December 31, 2004.
(14)	Incorporated by reference to the Current Report on Form 8-K of FairPoint filed on February 6, 2008.
(15)	Incorporated by reference to the Current Report on Form 8-K of FairPoint filed on February 21, 2008.
(16)	Incorporated by reference to the Current Report on Form 8-K of FairPoint filed on February 27, 2008.
(17)	Incorporated by reference to the Annual Report on Form 10-K of FairPoint for the year ended December 31, 2010.
(18)	Incorporated by reference to the Quarterly Report on Form 10-Q of FairPoint for the period ended June 30, 2011.
(19)	Incorporated by reference to the Quarterly Report on Form 10-Q of FairPoint for the period ended March 31, 2012.
(20)	Incorporated by reference to the Current Report on Form 8-K of FairPoint filed on November 13, 2012.
(21)	Incorporated by reference to the Current Report on Form 8-K of FairPoint filed on February 14, 2013.

Exhibit 10.18

EMPLOYMENT AGREEMENT

This EMPLOYMENT AGREEMENT (this "Agreement") is made and entered into as of this 22nd day of January, 2013 (the "Commencement Date") by and between FairPoint Communications, Inc. (the "Company"), a Delaware corporation, and Ajay Sabherwal (the " Executive").

W I T N E S S E T H :

WHEREAS, the Company desires to employ Executive and to enter into this Agreement embodying the terms of such employment, and Executive desires to enter into this Agreement and to accept such employment, subject to the terms and provisions of this Agreement.

NOW, THEREFORE, in consideration of the promises and mutual covenants contained herein and for other good and valuable consideration, the receipt and sufficiency of which are mutually acknowledged, the Company and Executive hereby agree as follows:

Section 1. **Definitions**.

(a) "Accrued Obligations" shall mean (i) all accrued but unpaid Base Salary through the date of termination of Executive's employment, (ii) any unpaid or unreimbursed expenses incurred in accordance with Section 7 hereof, (iii) any benefits provided under the Company's employee benefit plans upon a termination of employment, in accordance with the terms contained therein, and (iv) any amounts payable under the FairPoint Communications, Inc. 2010 Long Term Incentive Plan ("LTIP"), in accordance with the terms contained therein.

(b) "Cause" shall mean (i) Executive's act(s) of gross negligence or willful misconduct in the course of Executive's employment hereunder, (ii) willful failure or refusal by Executive to perform in any material respect his duties or responsibilities, (iii) misappropriation (or attempted misappropriation) by Executive of any assets or business opportunities of the Company or any other member of the Company Group, (iv) embezzlement or fraud committed (or attempted) by Executive, or at his direction, (v) Executive's conviction of, indictment for, or pleading "guilty" or " no contest" to, (x) a felony or (y) any other criminal charge that has, or could be reasonably expected to have, an adverse impact on the performance of Executive's duties to the Company or any other member of the Company Group or otherwise result in material injury to the reputation or business of the Company or any other member of the Company Group, (vi) any material violation by Executive of the policies of the Company, including but not limited to those relating to sexual harassment or business conduct, and those otherwise set forth in the manuals or statements of policy of the Company, which violation has a material adverse effect on the Company, or (vii) Executive's material breach of this Agreement or material breach of the Non-Interference Agreement.

(c) "Change in Control" shall have the same meaning as defined in the LTIP, as in effect on the date hereof; provided, however, that there shall be no provision for any threatened or anticipated Change in Control that does not actually occur.

(d) "Disability" shall mean any physical or mental disability or infirmity of Executive that prevents the performance of Executive's duties for a period of (i) ninety (90) consecutive days or (ii) one hundred twenty (120) non-consecutive days during any twelve (12) month period. Any question as to the existence, extent, or potentiality of Executive's Disability upon which Executive and the Company cannot agree shall be determined by a qualified, independent physician selected by the Company and approved by Executive (which approval shall not be unreasonably withheld). The determination of any such physician shall be final and conclusive for all purposes of this Agreement.

(e) "Good Reason" shall mean, without Executive's consent, (i) a material reduction in Base Salary set forth in Section 4(a) hereof or Annual Bonus opportunity referred to in Section 4(b) hereof, (ii) the relocation of Executive's principal place of employment (as provided in Section 3(b) hereof) more than fifty (50) miles from its current location, or (iii) any other material breach of a provision of this Agreement by the Company (other than a provision that is covered by clause (i) or (ii) above). Executive acknowledges and agrees that his exclusive remedy in the event of any breach of this Agreement shall be to assert Good Reason pursuant to the terms and conditions of Section 8(e) hereof. Notwithstanding the foregoing, during the Term of Employment, in the event that the Board reasonably believes that Executive may have engaged in conduct that could constitute Cause hereunder, the Board may, in its sole and absolute discretion, suspend Executive from performing his duties hereunder, and in no event shall any such suspension constitute an event pursuant to which Executive may terminate employment with Good

Reason or otherwise constitute a breach hereunder; *provided*, that no such suspension shall alter the Company's obligations under this Agreement during such period of suspension.

(f) "Person" shall mean any individual, corporation, partnership, limited liability company, joint venture, association, joint -stock company, trust (charitable or non-charitable), unincorporated organization, or other form of business entity.

Section 2. **Acceptance and Term of Employment**.

The Company agrees to employ Executive, and Executive agrees to serve the Company, on the terms and conditions set forth herein. The term of employment (the "Term of Employment") shall commence on the Commencement Date and shall continue during the period ending on the close of business of the three (3) year anniversary of the Commencement Date, unless terminated sooner as provided in Section 8 or unless the Company has provided Executive with notice of its intention to renew the Term of Employment for a specific period of time, such notice to be given not less than one hundred twenty (120) days prior to the expiration of the three (3) year anniversary of the Commencement Date. Following the three year Term of Employment (or the applicable extension term, if any), the Executive shall continue on an at will basis until such time as the Company provides to Executive a written notice of termination pursuant to the provisions of Section 18 hereof.

Section 3. **Position, Duties, and Responsibilities; Place of Performance.**

(a) Position, Duties and Responsibilities. During the Term of Employment, Executive shall be employed and serve as Executive Vice President and Chief Financial Officer of the Company (with such title subject to change from time to time as determined by the Board of Directors of the Company (the "Board") together with such other position or positions consistent with Executive's title as the Chief Executive Officer of the Company (the "CEO") shall specify from time to time), and shall have such duties and responsibilities commensurate with such title. Executive also agrees to serve, at the request of the CEO, as an officer of any other direct or indirect subsidiary of the Company (each such subsidiary being, together with the Company, a member of the "Company Group"), in each case without additional compensation.

(b) Performance. Executive shall devote his full business time, attention, skill, and best efforts to the performance of his duties under this Agreement and shall not engage in any other business or occupation during the Term of Employment, including, without limitation, any activity that (x) conflicts with the interests of the Company or any other member of the Company Group, (y) interferes with the proper and efficient performance of Executive's duties for the Company, or (z) interferes with Executive's exercise of judgment in the Company's best interests. Notwithstanding the foregoing, nothing herein shall preclude Executive from (i) serving, with the prior written consent of the CEO, as a member of the boards of directors or advisory boards (or their equivalents in the case of a non-corporate entity) of non-competing businesses and charitable organizations, (ii) engaging in charitable activities and community affairs, and (iii) managing personal investments and affairs; *provided*, *however*, that the activities set out in clauses (i), (ii) and (iii) shall be limited by Executive so as not to interfere, individually or in the aggregate, with the performance of his duties and responsibilities hereunder. Executive's principal place of employment shall be in Charlotte, North Carolina, although Executive understands and agrees that he may be required to travel from time to time for business reasons.

Section 4. **Compensation**.

During the Term of Employment, Executive shall be entitled to the following compensation:

(a) Base Salary. Executive shall be paid an annualized base salary (the "Base Salary"), payable in accordance with the regular payroll practices of the Company, of not less than Three Hundred Eighty Thousand Dollars ($380,000), with increases, if any, as may be approved in writing by the Compensation Committee of the Board of Directors (the "Compensation Committee").

(b) Annual Bonus. Executive shall be eligible for an annual incentive bonus award (the "Annual Bonus") through participation in the Company's Annual Incentive Plan in respect of each fiscal year during the Term of Employment, with the actual Annual Bonus payable being based upon the level of achievement of annual Company and individual performance objectives for such fiscal year, as determined by the Compensation Committee and communicated to Executive. The Annual Bonus shall be paid to Executive at the same time as annual bonuses are generally payable to other senior executives of the Company subject to Executive's continuous employment through the payment date.

(c) Other Plans. Executive shall be eligible for consideration by the Compensation Committee to participate in the benefit and other plans made available generally to senior executives of the Company, including but not limited to the LTIP, subject to the terms and conditions as may be established from time to time by the Compensation Committee and communicated

to Executive. Upon the occurrence of a Change in Control, all of Executive's unvested benefits under the LTIP shall be accelerated and shall vest in full.

(d) Indemnification. The Company shall indemnify Executive and hold Executive harmless in connection with the defense of any lawsuit or other claim to which he is made a party by reason of being an officer or employee of the Company, to the fullest extent permitted by the laws of the State of Delaware, as in effect at the time of the subject act or omission; *provided* that any settlement, consent to judgment, or similar action taken by Executive without the prior written consent of the Company in respect of any such lawsuit or other claim shall not be subject to indemnification hereunder.

Section 5. **Employee Benefits**.

During the Term of Employment, Executive shall be entitled to participate in health, insurance, retirement, and other benefits provided generally to similarly situated employees of the Company. Executive shall also be entitled to the same number of holidays, vacation days, and sick days, as well as any other benefits, in each case as are generally allowed to similarly situated employees of the Company in accordance with the Company policy as in effect from time to time. Nothing contained herein shall be construed to limit the Company's ability to amend, suspend, or terminate any employee benefit plan or policy at any time without providing Executive notice, and the right to do so is expressly reserved.

Section 6. **Key-Man Insurance**.

At any time during the Term of Employment, the Company shall have the right to insure the life of Executive for the sole benefit of the Company, in such amounts, and with such terms, as it may determine. All premiums payable thereon shall be the obligation of the Company. Executive shall have no interest in any such policy, but agrees to cooperate with the Company in procuring such insurance by submitting to physical examinations, supplying all information required by the insurance company, and executing all necessary documents, provided that no financial obligation is imposed on Executive by any such documents.

Section 7. **Reimbursement of Business Expenses**.

Executive is authorized to incur reasonable business expenses in carrying out his duties and responsibilities under this Agreement, and the Company shall promptly reimburse him for all such reasonable business expenses, subject to documentation in accordance with the Company's policy, as in effect from time to time.

Section 8. **Termination of Employment.**

(a) General. The Term of Employment shall terminate upon the earliest to occur of (i) Executive's death, (ii) a termination by reason of a Disability, (iii) a termination by the Company with or without Cause, (iv) a termination by Executive with or without Good Reason, and (v) delivery by the Company to Executive of a termination notice at any time subsequent to the close of business on the last day of the Term of Employment. Upon any termination of Executive's employment for any reason, except as may otherwise be requested by the Company in writing and agreed upon in writing by Executive, Executive shall resign from any and all directorships, committee memberships, and any other positions Executive holds with the Company or any other member of the Company Group. Notwithstanding anything herein to the contrary, the payment (or commencement of a series of payments) hereunder of any nonqualified deferred compensation (within the meaning of Section 409A of the Internal Revenue Code of 1986, as amended, and the rules and regulations promulgated thereunder (the “Code”)) upon a termination of employment shall be delayed until such time as Executive has also undergone a “separation from service” as defined in Treas. Reg. 1.409A-1(h), at which time such nonqualified deferred compensation (calculated as of the date of Executive's termination of employment hereunder) shall be paid (or commence to be paid) to Executive on the schedule set forth in this Section 8 as if Executive had undergone such termination of employment (under the same circumstances) on the date of his ultimate “separation from service.”

(b) Termination Due to Death or Disability. Executive's employment shall terminate automatically upon his death. The Company may terminate Executive's employment immediately upon the occurrence of a Disability, such termination to be effective upon Executive's receipt of written notice of such termination. Upon Executive's death or in the event that Executive's employment is terminated due to his Disability, Executive or his estate or his beneficiaries, as the case may be, shall be entitled to:

(i) The Accrued Obligations;

(ii) Any unpaid Annual Bonus in respect of any completed fiscal year that has ended prior to the date of such termination, which amount shall be paid at such time annual bonuses are paid to other senior executives of

the Company, but in no event later than the date that is 2½ months following the last day of the fiscal year in which such termination occurred.

Following Executive's death or a termination of Executive's employment by reason of a Disability, except as set forth in this Section 8(b), Executive shall have no further rights to any compensation or any other benefits under this Agreement.

(c) Termination by the Company with Cause.

(i) The Company may terminate Executive's employment at any time with Cause, effective upon Executive's receipt of written notice of such termination; *provided*, *however*, that with respect to any Cause termination relying on clause (ii) of the definition of Cause set forth in Section 1(b) hereof, to the extent that such act or acts or failure or failures to act are curable, Executive shall be given not less than ten (10) days' written notice by the Board of its intention to terminate him with Cause, such notice to state in detail the particular act or acts or failure or failures to act that constitute the grounds on which the proposed termination with Cause is based, and such termination shall be effective at the expiration of such ten (10) day notice period unless Executive has fully cured such act or acts or failure or failures to act that give rise to Cause during such period.

(ii) In the event that the Company terminates Executive's employment with Cause, he shall be entitled only to the Accrued Obligations. Following such termination of Executive's employment with Cause, except as set forth in this Section 8(c)(ii), Executive shall have no further rights to any compensation or any other benefits under this Agreement.

(d) Termination by the Company without Cause or upon Delivery of a Termination Notice from the Company to the Executive. The Company may terminate Executive's employment at any time without Cause, effective upon Executive's receipt of written notice of such termination, or by delivery to Executive of a written notice of termination in accordance with the provisions of Section 2 above.

(i) In the event that Executive's employment is terminated by the Company without Cause (other than due to death or Disability) or upon the Company's delivery of a termination notice, in either case prior to the expiration of the Term of Employment (for example, the termination must be effected or the termination notice must be delivered to Executive prior to the expiration of three (3) years from the Commencement Date), Executive shall be entitled to:

(A) The Accrued Obligations, paid as soon as practicable following Executive's termination of employment, but in no event later than the date that is 2½ months following the last day of the fiscal year in which such termination occurred;

(B) Any unpaid Annual Bonus in respect of any completed fiscal year that has ended prior to the date of such termination, which amount shall be paid at such time annual bonuses are paid to other senior executives of the Company, but in no event later than the date that is 2½ months following the last day of the fiscal year in which such termination occurred;

(C) An amount equal to the sum of:

(x) two (2) times the amount of Executive's then-current Base Salary, paid as soon as practicable following Executive's termination of employment, but in no event later than the date that is 2½ months following the last day of the fiscal year in which such termination occurred;

(y) two (2) times the amount of Executive's average Annual Bonus where such average is determined by reference to the actual Annual Bonus paid to Executive for the immediately two (2) preceding fiscal years, paid as soon as practicable following Executive's termination of employment, but in no event later than the date that is 2½ months following the last day of the fiscal year in which such termination occurred;

(z) the cost of continued health and disability insurance coverage for Executive and his covered dependents during the twenty four (24) months following such termination, based on the monthly cost of continuation coverage under COBRA as of the date of termination, as applicable, under the applicable Company benefit plans, such amounts to be paid in accordance with the Company's regular payroll practices; and

(D) if any such termination is within six (6) months before or six (6) months after a Change in Control, the amount payable under Section 8(d)(i)(C)(y) shall be adjusted to the greater of (A) the amount payable under Section 8(d)(i)(C)(y), or (B) two (2) times the amount of Executive's target Annual Bonus for the current fiscal year. To the extent that the amount payable under this Section 8(d)(i)(D) is greater than the amount payable under Section 8(d)(i)(C), the deficiency shall be paid at the effective time of the occurrence of a Change in Control.

(ii) In the event that Executive's employment is terminated by the Company without Cause (other than due to death or Disability) or upon the Company's delivery of a termination notice, in either case after the expiration of the Term of Employment (for example, the termination is effected or the termination notice is delivered to Executive subsequent to the expiration of three (3) years from the Commencement Date, herein an "At Will Termination"), Executive shall be entitled to the Accrued Obligations only; provided, however, if the At Will Termination is effected within six (6) months prior to a Change in Control, Executive shall be entitled to each of the payments and benefits described in clauses (B), (C) and (D) above.

Notwithstanding the foregoing, the payments and benefits described in clauses (B), (C) and (D) above shall immediately terminate, and the Company shall have no further obligations to Executive with respect thereto, in the event that Executive breaches any provision of the Non-Interference Agreement.

Following such termination of Executive's employment by the Company without Cause or upon the Company's delivery to Executive of a termination notice, except as set forth in this Section 8(d), Executive shall have no further rights to any compensation or any other benefits under this Agreement.

For the avoidance of doubt, Executive's sole and exclusive remedy upon a termination of employment by the Company without Cause or upon the expiration of the Term of Employment, in either case following the Company's delivery to Executive of a termination notice which termination is effected or where the termination notice is delivered prior to the expiration of the date that is three (3) years subsequent to the Commencement Date, shall be receipt of the Severance Benefits and the Accrued Obligations.

(e) Termination by Executive with Good Reason. Executive may terminate his employment with Good Reason by providing the Company thirty (30) days' written notice setting forth in reasonable specificity the event that constitutes Good Reason, which written notice, to be effective, must be provided to the Company within sixty (60) days of the initial occurrence of such event. During such thirty (30) day notice period, the Company shall have a cure right (if curable), and if not cured within such period, Executive's termination will be effective upon the expiration of such cure period. Executive shall be entitled to the same payments and benefits as provided in Section 8(d) hereof for a termination by the Company without Cause, subject to the same conditions on payment and benefits as described in Section 8(d) hereof; provided, however, that Executive shall also be entitled to accelerated vesting of the next tranche of benefits payable under the LTIP. Following such termination of Executive's employment by Executive with Good Reason, except as set forth in this Section 8(e), Executive shall have no further rights to any compensation or any other benefits under this Agreement. For the avoidance of doubt, Executive's sole and exclusive remedy upon a termination of employment with Good Reason shall be receipt of the amounts as set forth in this Section 8(e).

(f) Termination by Executive without Good Reason or upon Delivery by Executive to Company of a Termination Notice. Executive may terminate his employment without Good Reason by providing the Company thirty (30) days' written notice of such termination or by delivery of a written termination notice in accordance with the provisions of Section 2 above. In the event of a termination of employment by Executive under this Section 8(f), Executive shall be entitled only to the Accrued Obligations. In the event of termination of Executive's employment without Good Reason, the Company may, in its sole and absolute discretion, by written notice accelerate such date of termination without changing the characterization of such termination as a termination by Executive without Good Reason. Following such termination of Executive's employment by Executive without Good Reason or upon Executive's delivery to Company of a termination notice, except as set forth in this Section 8(f), Executive shall have no further rights to any compensation or any other benefits under this Agreement.

(g) Release. Notwithstanding any provision herein to the contrary, the payment of any amount or provision of any benefit pursuant to subsection (b), (d), or (e) of this Section 8 (other than the Accrued Obligations) (collectively, the "Severance Benefits") shall be conditioned upon Executive's execution, delivery to the Company, and non-revocation of a release of claims (under a release of claims form, the form and content of which are acceptable to the Company, and the expiration of any revocation period contained in such release of claims) within sixty (60) days following the date of Executive's termination of employment hereunder. If Executive fails to execute the release of claims in such a timely manner so as to permit any revocation period to expire prior to the end of such sixty (60) day period, or timely revokes his acceptance of such release following its execution, Executive shall not be entitled to any of the Severance Benefits. Further, to the extent that any of the Severance Benefits constitutes “nonqualified deferred compensation” for purposes of Section 409A of the Code, any payment of any amount or provision of any benefit otherwise scheduled to occur prior to the sixtieth (60th) day following the date of Executive's termination of employment hereunder, but for the condition on executing the release of claims as set forth herein, shall not be made until the first regularly scheduled payroll date following such sixtieth (60th) day, after which any remaining Severance Benefits shall thereafter be provided to Executive according to the applicable schedule set forth herein. For the avoidance of doubt, in the event of a termination due to Executive's death or Disability, Executive's obligations herein to execute and not revoke the release of claims may be satisfied on his behalf by his estate or a person having legal power of attorney over his affairs.

Section 9. **Non-Interference Agreement**.

As a condition to receipt of the benefits set forth under this Agreement, to which Executive acknowledges are incremental to the benefits and compensation available to Executive immediately prior to the Commencement Date, Executive shall have executed and delivered to the Company a non-interference agreement (the “Non-Interference Agreement”) in the form of the Confidentiality, Non-Interference and Invention Assignment Agreement attached hereto as Exhibit A. The parties hereto acknowledge and agree that this Agreement and the Non-Interference Agreement shall be considered separate contracts.

Section 10. **Representations and Warranties of Executive**.

Executive represents and warrants to the Company that:

(a) Executive is entering into this Agreement voluntarily and that his employment hereunder and compliance with the terms and conditions hereof will not conflict with or result in the breach by him of any agreement to which he is a party or by which he may be bound;

(b) Executive has not violated, and in connection with his employment with the Company will not violate, any non-solicitation, non-competition, or other similar covenant or agreement of a prior employer by which he is or may be bound; and

(c) in connection with his employment with the Company, Executive will not use any confidential or proprietary information he may have obtained in connection with employment with any prior employer.

Section 11. **Taxes**.

The Company may withhold from any payments made under this Agreement all applicable taxes, including but not limited to income, employment, and social insurance taxes, as shall be required by law. Executive acknowledges and represents that the Company has not provided any tax advice to him in connection with this Agreement and that he has been advised by the Company to seek tax advice from his own tax advisors regarding this Agreement and payments that may be made to him pursuant to this Agreement, including specifically, the application of the provisions of Section 409A of the Code to such payments.

Section 12. **Mitigation; Company Recovery Rights**.

Executive shall not be required to mitigate the amount of any payment provided pursuant to this Agreement by seeking other employment or otherwise, and the amount of any payment provided for pursuant to this Agreement shall not be reduced by any compensation earned as a result of Executive's other employment or otherwise. Any payment pursuant to this Agreement shall, however, be subject to any rights the Company may have under Section 304(b) of the Sarbanes-Oxley Act of 2002 or Section 954 of the Dodd-Frank Wall Street Reform and Consumer Protection Act.

Section 13. **Additional Section 409A Provisions**.

Notwithstanding any provision in this Agreement to the contrary:

(a) Any payment otherwise required to be made hereunder to Executive at any date as a result of the termination of Executive's employment shall be delayed for such period of time as may be necessary to meet the requirements of Section 409A(a)(2)(B)(i) of the Code (the “Delay Period”). On the first business day following the expiration of the Delay Period, Executive shall be paid, in a single cash lump sum, an amount equal to the aggregate amount of all payments delayed pursuant to the preceding sentence, and any remaining payments not so delayed shall continue to be paid pursuant to the payment schedule set forth herein.

(b) Each payment in a series of payments hereunder shall be deemed to be a separate payment for purposes of Section 409A of the Code.

(c) To the extent that any right to reimbursement of expenses or payment of any benefit in-kind under this Agreement constitutes nonqualified deferred compensation (within the meaning of Section 409A of the Code), (i) any such expense reimbursement shall be made by the Company no later than the last day of the taxable year following the taxable year in which such expense was incurred by Executive, (ii) the right to reimbursement or in-kind benefits shall not be subject to liquidation or exchange for another benefit, and (iii) the amount of expenses eligible for reimbursement or in-kind benefits provided during any taxable year shall not affect the expenses eligible for reimbursement or in-kind benefits to be provided in any other taxable year; *provided*, that the foregoing clause shall not be violated with regard to expenses reimbursed under any arrangement covered by Section 105(b) of the Code solely because such expenses are subject to a limit related to the period the arrangement is in effect.

(d) While the payments and benefits provided hereunder are intended to be structured in a manner to avoid the implication of any penalty taxes under Section 409A of the Code, in no event whatsoever shall the Company or any member of the Company Group be liable for any additional tax, interest, or penalties that may be imposed on Executive as a result of Section 409A of the Code or any damages for failing to comply with Section 409A of the Code (other than for withholding obligations or other obligations applicable to employers, if any, under Section 409A of the Code).

Section 14. **Successors and Assigns; No Third-Party Beneficiaries** .

(a) The Company. This Agreement shall inure to the benefit of the Company and its respective successors and assigns. Neither this Agreement nor any of the rights, obligations, or interests arising hereunder may be assigned by the Company to a Person (other than another member of the Company Group, or its or their respective successors) without Executive's prior written consent (which shall not be unreasonably withheld, delayed, or conditioned); *provided*, *however*, that in the event of a sale of all or substantially all of the assets of the Company, the Company may provide that this Agreement will be assigned to, and assumed by, the acquiror of such assets, it being agreed that in such circumstances, Executive's consent will not be required in connection therewith.

(b) Executive. Executive's rights and obligations under this Agreement shall not be transferable by Executive by assignment or otherwise, without the prior written consent of the Company; *provided*, *however*, upon Executive's death, all amounts then payable to Executive hereunder shall be paid in accordance with the terms of this Agreement to Executive's devisee, legatee, or other designee, or if there be no such designee, to Executive's estate.

(c) No Third-Party Beneficiaries. Except as otherwise set forth in Section 8(b) or Section 14(b) hereof, nothing expressed or referred to in this Agreement will be construed to give any Person other than the Company, the other members of the Company Group, and Executive any legal or equitable right, remedy, or claim under or with respect to this Agreement or any provision of this Agreement.

Section 15. **Waiver and Amendments**.

Any waiver, alteration, amendment, or modification of any of the terms of this Agreement shall be valid only if made in writing and signed by each of the parties hereto; *provided*, *however*, that any such waiver, alteration, amendment, or modification must be consented to on the Company's behalf by the Board. No waiver by either of the parties hereto of their rights hereunder shall be deemed to constitute a waiver with respect to any subsequent occurrences or transactions hereunder unless such waiver specifically states that it is to be construed as a continuing waiver.

Section 16. **Severability.**

If any covenants or such other provisions of this Agreement are found to be invalid or unenforceable by a final determination of a court of competent jurisdiction, (a) the remaining terms and provisions hereof shall be unimpaired, and (b) the invalid or unenforceable term or provision hereof shall be deemed replaced by a term or provision that is valid and enforceable and that comes closest to expressing the intention of the invalid or unenforceable term or provision hereof.

Section 17. **Governing Law and Jurisdiction.**

THIS AGREEMENT IS GOVERNED BY AND IS TO BE CONSTRUED UNDER THE LAWS OF THE STATE OF NORTH CAROLINA, WITHOUT REGARD TO CONFLICT OF LAWS RULES. ANY DISPUTE OR CLAIM ARISING OUT OF OR RELATING TO THIS AGREEMENT OR CLAIM OF BREACH HEREOF SHALL BE BROUGHT EXCLUSIVELY IN FEDERAL COURT IN THE STATE OF NORTH CAROLINA. BY EXECUTION OF THE AGREEMENT, THE PARTIES

HERETO, AND THEIR RESPECTIVE AFFILIATES, CONSENT TO THE EXCLUSIVE JURISDICTION OF SUCH COURT, AND WAIVE ANY RIGHT TO CHALLENGE JURISDICTION OR VENUE IN SUCH COURT WITH REGARD TO ANY SUIT, ACTION, OR PROCEEDING UNDER OR IN CONNECTION WITH THE AGREEMENT. EACH PARTY TO THIS AGREEMENT ALSO HEREBY WAIVES ANY RIGHT TO TRIAL BY JURY IN CONNECTION WITH ANY SUIT, ACTION, OR PROCEEDING UNDER OR IN CONNECTION WITH THIS AGREEMENT.

Section 18. **Notices.**

(a) Place of Delivery. Every notice or other communication relating to this Agreement shall be in writing, and shall be mailed to or delivered to the party for whom or which it is intended at such address as may from time to time be designated by it in a notice mailed or delivered to the other party as herein provided; *provided*, that unless and until some other address be so designated, all notices and communications by Executive to the Company shall be mailed or delivered to the Company at its principal executive office, Attention: General Counsel, and all notices and communications by the Company to Executive may be given to Executive personally or may be mailed to Executive at Executive's last known address, as reflected in the Company's records.

(b) Date of Delivery. Any notice so addressed shall be deemed to be given (i) if delivered by hand, on the date of such delivery, (ii) if mailed by courier or by overnight mail, on the first business day following the date of such mailing, and (iii) if mailed by registered or certified mail, on the third business day after the date of such mailing.

Section 19. **Section Headings.**

The headings of the sections and subsections of this Agreement are inserted for convenience only and shall not be deemed to constitute a part thereof or affect the meaning or interpretation of this Agreement or of any term or provision hereof.

Section 20. **Entire Agreement.**

This Agreement, together with any exhibits attached hereto, constitutes the entire understanding and agreement of the parties hereto regarding the employment of Executive. This Agreement supersedes all prior negotiations, discussions, correspondence, communications, understandings, and agreements between the parties relating to the subject matter of this Agreement.

Section 21. **Survival of Operative Sections.**

Upon any termination of Executive's employment, the provisions of Section 8 through Section 22 of this Agreement (together with any related definitions set forth in Section 1 hereof) shall survive to the extent necessary to give effect to the provisions thereof.

Section 22. **Counterparts.**

This Agreement may be executed in two or more counterparts, each of which shall be deemed to be an original but all of which together shall constitute one and the same instrument. The execution of this Agreement may be by actual or facsimile signature.

* * *

[Signatures to appear on the following page.]

IN WITNESS WHEREOF, the undersigned have executed this Agreement as of the date first above written.

FAIRPOINT COMMUNICATIONS, INC.

/s/ Paul H. Sunu
By: Paul H. Sunu
Title: Chief Executive Officer

EXECUTIVE

/s/ Ajay Sabherwal
Ajay Sabherwal

CONFIDENTIALITY, NON-INTERFERENCE, AND INVENTION ASSIGNMENT AGREEMENT

In consideration of FairPoint Communications, Inc., a Delaware corporation (the "Company"), providing me with an employment agreement of even date herewith, and my receipt of the compensation now and hereafter paid to me by the Company, including the additional benefits and compensation provided to me under my employment agreement, I agree to the following:

Section 1. **Confidential Information.**

(a) Company Group Information. I acknowledge that, during the course of my employment, I will have access to information about the Company and its direct and indirect subsidiaries and affiliates (collectively, the "Company Group") and that my employment with the Company shall bring me into close contact with confidential and proprietary information of the Company Group. In recognition of the foregoing, I agree, at all times during the term of my employment with the Company and for the three (3) year period following my termination of my employment for any reason, to hold in confidence, and not to use, except for the benefit of the Company Group, or to disclose to any person, firm, corporation, or other entity without written authorization of the Company, any Confidential Information that I obtain or create. I understand that "Confidential Information" means information that the Company Group has developed, acquired, created, compiled, discovered, or owned or will develop, acquire, create, compile, discover, or own, that has value in or to the business of the Company Group that is not generally known and that the Company wishes to maintain as confidential. I understand that Confidential Information includes, but is not limited to, any and all non-public information that relates to the actual or anticipated business and/or products, research, or development of the Company, or to the Company's technical data, trade secrets, or know-how, including, but not limited to, research, product plans, or other information regarding the Company's products or services and markets, customer lists, and customers (including, but not limited to, customers of the Company on whom I called or with whom I may become acquainted during the term of my employment), software, developments, inventions, processes, formulas, technology, designs, drawings, engineering, hardware configuration information, marketing, finances, and other business information disclosed by the Company either directly or indirectly in writing, orally, or by drawings or inspection of premises, parts, equipment, or other Company property. Notwithstanding the foregoing, Confidential Information shall not include (i) any of the foregoing items that have become publicly known through no unauthorized disclosure by me or others who were under confidentiality obligations as to the item or items involved, (ii) any information that I am required to disclose to, or by, any governmental or judicial authority, (iii) any information known to me prior to my employment with the Company, other than information acquired in preparation for my service to the Company, or (iv) any information developed independently by me that does not relate to the business of the Company Group; *provided*, *however*, that in the event of such requirement to disclose I will give the Company prompt written notice thereof so that the Company Group may seek an appropriate protective order and/or waive in writing compliance with the confidentiality provisions of this Confidentiality, Non-Interference, and Invention Assignment Agreement (the "Non-Interference Agreement").

(b) Former Employer Information. I represent that my performance of all of the terms of this Non-Interference Agreement as an employee of the Company has not breached and will not breach any agreement to keep in confidence proprietary information, knowledge, or data acquired by me in confidence or trust prior or subsequent to the commencement of my employment with the Company, and I will not disclose to any member of the Company Group, or induce any member of the Company Group to use, any developments, or confidential or proprietary information or material I may have obtained in connection with employment with any prior employer in violation of a confidentiality agreement, nondisclosure agreement, or similar agreement with such prior employer.

Section 2. **Developments**.

(a) Developments Retained and Licensed. If, during any period during which I perform or performed services for the Company Group (the "Assignment Period"), whether as an officer, employee, director, independent contractor, consultant, or agent, or in any other capacity, I incorporate (or have incorporated) into a Company Group product or process any development, original work of authorship, improvement, or trade secret that I created or owned prior to the commencement of my employment or in which I have an interest (collectively referred to as "Prior Developments"), I hereby grant the Company, and the Company Group shall have, a non-exclusive, royalty-free, irrevocable, perpetual, transferable worldwide license (with the right to sublicense) to make, have made, copy, modify, make derivative works of, use, sell, and otherwise distribute such Prior Development as part of or in connection with such product or process.

(b) Assignment of Developments. I agree that I will, without additional compensation, promptly make full written disclosure to the Company, and will hold in trust for the sole right and benefit of the Company all developments, original works of authorship, inventions, concepts, know-how, improvements, trade secrets, and similar proprietary rights, whether or not patentable or registrable under copyright or similar laws, which I may solely or jointly conceive or develop or reduce to practice, or have solely or jointly conceived or developed or reduced to practice, or have caused or may cause to be conceived or

developed or reduced to practice, during the Assignment Period, whether or not during regular working hours, provided they either (i) relate at the time of conception, development or reduction to practice to the business of any member of the Company Group, or the actual or anticipated research or development of any member of the Company Group; (ii) result from or relate to any work performed for any member of the Company Group; or (iii) are developed through the use of equipment, supplies, or facilities of any member of the Company Group, or any Confidential Information, or in consultation with personnel of any member of the Company Group (collectively referred to as "Developments"). I further acknowledge that all Developments made by me (solely or jointly with others) within the scope of and during the Assignment Period are "works made for hire" (to the greatest extent permitted by applicable law) for which I am, in part, compensated by my salary, unless regulated otherwise by law, but that, in the event any such Development is deemed not to be a work made for hire, I hereby assign to the Company, or its designee, all my right, title, and interest throughout the world in and to any such Development.

(c) Maintenance of Records. I agree to keep and maintain adequate and current written records of all Developments made by me (solely or jointly with others) during the Assignment Period. The records may be in the form of notes, sketches, drawings, flow charts, electronic data or recordings, and any other format. The records will be available to and remain the sole property of the Company Group at all times. I agree not to remove such records from the Company's place of business except as expressly permitted by Company Group policy, which may, from time to time, be revised at the sole election of the Company Group for the purpose of furthering the business of the Company Group.

(d) Intellectual Property Rights. I agree to assist the Company, or its designee, at the Company's expense, in every way to secure the rights of the Company Group in the Developments and any copyrights, patents, trademarks, service marks, database rights, domain names, mask work rights, moral rights, and other intellectual property rights relating thereto in any and all countries, including the disclosure to the Company of all pertinent information and data with respect thereto, the execution of all applications, specifications, oaths, assignments, recordations, and all other instruments that the Company shall deem necessary in order to apply for, obtain, maintain, and transfer such rights and in order to assign and convey to the Company Group the sole and exclusive right, title, and interest in and to such Developments, and any intellectual property and other proprietary rights relating thereto. I further agree that my obligation to execute or cause to be executed, when it is in my power to do so, any such instrument or papers shall continue after the termination of the Assignment Period until the expiration of the last such intellectual property right to expire in any country of the world; *provided*, *however*, the Company shall reimburse me for my reasonable expenses incurred in connection with carrying out the foregoing obligation. If the Company is unable because of my mental or physical incapacity or unavailability for any other reason to secure my signature to apply for or to pursue any application for any United States or foreign patents or copyright registrations covering Developments or original works of authorship assigned to the Company as above, then I hereby irrevocably designate and appoint the Company and its duly authorized officers and agents as my agent and attorney in fact to act for and in my behalf and stead to execute and file any such applications or records and to do all other lawfully permitted acts to further the application for, prosecution, issuance, maintenance, and transfer of letters patent or registrations thereon with the same legal force and effect as if originally executed by me. I hereby waive and irrevocably quitclaim to the Company any and all claims, of any nature whatsoever, that I now or hereafter have for past, present, or future infringement of any and all proprietary rights assigned to the Company.

Section 3. **Returning Company Group Documents**.

I agree that, at the time of termination of my employment with the Company for any reason, I will deliver to the Company (and will not keep in my possession, recreate, or deliver to anyone else) any and all Confidential Information and all other documents, materials, information, and property developed by me pursuant to my employment or otherwise belonging to the Company. I agree further that any property situated on the Company's premises and owned by the Company (or any other member of the Company Group), including disks and other storage media, filing cabinets, and other work areas, is subject to inspection by personnel of any member of the Company Group at any time with or without notice.

Section 4. **Disclosure of Agreement**.

As long as it remains in effect, I will disclose the existence of this Non-Interference Agreement to any prospective employer, partner, co-venturer, investor, or lender prior to entering into an employment, partnership, or other business relationship with such person or entity.

Section 5. **Restrictions on Interfering**.

(a) Non-Competition. During the period of my employment with the Company (the "Employment Period") and the Post-Termination Non-Compete Period, I shall not, directly or indirectly, individually or on behalf of any person, company, enterprise, or entity, or as a sole proprietor, partner, stockholder, director, officer, principal, agent, or executive, or in any other capacity or relationship, engage in any Competitive Activities.

(b) Non-Interference. During the Employment Period and the Post-Termination Non-Interference Period, I shall not, directly or indirectly for my own account or for the account of any other individual or entity, engage in Interfering Activities; *provided*, *however*, that I shall not be deemed to violate this subsection (b) to the extent that any employee of any subsequent employer of mine, in the ordinary course of business, conducts any activity described in subsection (c)(iii)(C) below as to any Business Relation, provided that I have not directed or instructed any such employee (either personally or through another) to contact any such Business Relation.

(c) Definitions. For purposes of this Non-Interference Agreement :

i. "Business Relation" shall mean any current or prospective client, customer, licensee, or other business relation of the Company Group, or any such relation that was a client, customer, licensee, or other business relation within the six (6) month period prior to the expiration of the Employment Period, in each case, to whom I provided services, or with whom I transacted business, or whose identity became known to me in connection with my relationship with or employment by the Company and is not publicly known.

ii. "Competitive Activities" shall mean telecommunication services provided by a rural exchange carrier business which has substantial business operations in the state of Florida, Maine, New Hampshire, North Carolina, or Vermont.

iii. "Interfering Activities" shall mean (A) encouraging, soliciting, or inducing, or in any manner attempting to encourage, solicit, or induce, any Person employed by, or providing consulting services to, any member of the Company Group to terminate such Person's employment or services (or in the case of a consultant, materially reducing such services) with the Company Group; (B) hiring any individual who was employed by the Company Group within the six (6) month period prior to the date of such hiring; or (C) encouraging, soliciting, or inducing, or in any manner attempting to encourage, solicit, or induce, any Business Relation to cease doing business with or reduce the amount of business conducted with the Company Group, or in any way interfering with the relationship between any such Business Relation and the Company Group.

iv. "Person" shall mean any individual, corporation, partnership, limited liability company, joint venture, association, joint-stock company, trust (charitable or non-charitable), unincorporated organization, or other form of business entity.

v. "Post-Termination Non-Compete Period" shall mean the period commencing on the date of the termination of the Employment Period for any reason and ending on the twelve (12) month anniversary of such date of termination.

vi. "Post-Termination Non-Interference Period" shall mean the period commencing on the date of the termination of the Employment Period for any reason and ending on the twelve (12) month anniversary of such date of termination.

(d) Non-Disparagement. I agree that during the Employment Period, and at all times thereafter, I will not make any disparaging or defamatory comments regarding any member of the Company Group or its respective current or former directors, officers, or employees in any respect or make any comments concerning any aspect of my relationship with any member of the Company Group or any conduct or events which precipitated any termination of my employment from any member of the Company Group. However, my obligations under this subparagraph (d) shall not apply to disclosures required by applicable law, regulation, or order of a court or governmental agency.

Section 6. **Reasonableness of Restrictions**.

I acknowledge and recognize the highly competitive nature of the Company's business, that access to Confidential Information renders me special and unique within the Company's industry, and that I will have the opportunity to develop substantial relationships with existing and prospective clients, accounts, customers, consultants, contractors, investors, and strategic partners of the Company Group during the course of and as a result of my employment with the Company. In light of the foregoing, I recognize and acknowledge that the restrictions and limitations set forth in this Non-Interference Agreement are reasonable and valid in geographical and temporal scope and in all other respects and are essential to protect the value of the business and assets of the Company Group. I acknowledge further that the restrictions and limitations set forth in this Non-Interference Agreement will not materially interfere with my ability to earn a living following the termination of my employment with the Company and that my ability to earn a livelihood without violating such restrictions is a material condition to my employment with the Company.

Section 7. **Independence; Severability; Blue Pencil**.

Each of the rights enumerated in this Non-Interference Agreement shall be independent of the others and shall be in addition to and not in lieu of any other rights and remedies available to the Company Group at law or in equity. If any of the provisions of this Non-Interference Agreement or any part of any of them is hereafter construed or adjudicated to be invalid or unenforceable, the same shall not affect the remainder of this Non-Interference Agreement, which shall be given full effect without regard to the invalid portions. If any of the covenants contained herein are held to be invalid or unenforceable because of the duration of such provisions or the area or scope covered thereby, I agree that the court making such determination shall have the power to reduce the duration, scope, and/or area of such provision to the maximum and/or broadest duration, scope, and/or area permissible by law, and in its reduced form said provision shall then be enforceable.

Section 8. **Injunctive Relief**.

I expressly acknowledge that any breach or threatened breach of any of the terms and/or conditions set forth in this Non-Interference Agreement may result in irreparable injury to the members of the Company Group. Therefore, I hereby agree that, in addition to any other remedy that may be available to the Company, any member of the Company Group shall be entitled to seek injunctive relief, specific performance, or other equitable relief by a court of appropriate jurisdiction in the event of any breach or threatened breach of the terms of this Non-Interference Agreement without the necessity of proving irreparable harm or injury as a result of such breach or threatened breach. Notwithstanding any other provision to the contrary, I acknowledge and agree that the Post-Termination Non-Compete Period, or Post-Termination Non-Interference Period, as applicable, shall be tolled during any period of violation of any of the covenants in Section 5 hereof.

Section 9. **Cooperation**.

I agree that, following any termination of my employment, I will continue to provide reasonable cooperation to the Company and/or any other member of the Company Group and its or their respective counsel in connection with any investigation, administrative proceeding, or litigation relating to any matter that occurred during my employment in which I was involved or of which I have knowledge. As a condition of such cooperation, the Company shall reimburse me for reasonable out-of-pocket expenses incurred at the request of the Company with respect to my compliance with this paragraph. I also agree that, in the event that I am subpoenaed by any person or entity (including, but not limited to, any government agency) to give testimony or provide documents (in a deposition, court proceeding, or otherwise) that in any way relates to my employment by the Company and/or any other member of the Company Group, I will give prompt notice of such request to the Company and will make no disclosure until the Company and/or the other member of the Company Group has had a reasonable opportunity to contest the right of the requesting person or entity to such disclosure.

Section 10. **General Provisions**.

(a) Governing Law and Jurisdiction. THIS NON-INTERFERENCE AGREEMENT IS GOVERNED BY AND IS TO BE CONSTRUED UNDER THE LAWS OF THE STATE OF NORTH CAROLINA, WITHOUT REGARD TO CONFLICT OF LAWS RULES. ANY DISPUTE OR CLAIM ARISING OUT OF OR RELATING TO THIS NON-INTERFERENCE AGREEMENT OR CLAIM OF BREACH HEREOF SHALL BE BROUGHT EXCLUSIVELY IN FEDERAL COURT IN THE STATE OF NORTH CAROLINA.BY EXECUTION OF THE NON-INTERFERENCE AGREEMENT, THE PARTIES HERETO, AND THEIR RESPECTIVE AFFILIATES, CONSENT TO THE EXCLUSIVE JURISDICTION OF SUCH COURT, AND WAIVE ANY RIGHT TO CHALLENGE JURISDICTION OR VENUE IN SUCH COURT WITH REGARD TO ANY SUIT, ACTION, OR PROCEEDING UNDER OR IN CONNECTION WITH THE NON-INTERFERENCE AGREEMENT. EACH PARTY TO THIS NON-INTERFERENCE AGREEMENT ALSO HEREBY WAIVES ANY RIGHT TO TRIAL BY JURY IN CONNECTION WITH ANY SUIT ACTION, OR PROCEEDING UNDER OR IN CONNECTION WITH THIS NON-INTERFERENCE AGREEMENT.

(b) Entire Agreement. This Non-Interference Agreement sets forth the entire agreement and understanding between the Company and me relating to the subject matter herein and merges all prior discussions between us. No modification or amendment to this Non-Interference Agreement, nor any waiver of any rights under this Non-Interference Agreement, will be effective unless in writing signed by the party to be charged. Any subsequent change or changes in my duties, obligations, rights, or compensation will not affect the validity or scope of this Non-Interference Agreement.

(c) No Right of Continued Employment. I acknowledge and agree that nothing contained herein shall be construed as granting me any right to continued employment by the Company, and the right of the Company to terminate my employment at any time and for any reason, with or without cause, is specifically reserved.

(d) Successors and Assigns. This Non-Interference Agreement will be binding upon my heirs, executors, administrators, and other legal representatives and will be for the benefit of the Company, its successors, and its assigns. I expressly acknowledge and agree that this Non-Interference Agreement may be assigned by the Company without my consent to any other member of the Company Group as well as any purchaser of all or substantially all of the assets or stock of the Company, whether by purchase, merger, or other similar corporate transaction, provided that the license granted pursuant to Section 2(a) may be assigned to any third party by the Company without my consent.

(e) Survival. The provisions of this Non-Interference Agreement shall survive the termination of my employment with the Company and/or the assignment of this Non-Interference Agreement by the Company to any successor in interest or other assignee.

* * *

I, Ajay Sabherwal, have executed this Confidentiality, Non-Interference, and Invention Assignment Agreement on the respective date set forth below:

Date: January 22, 2013 /s/ Ajay Sabherwal
(Signature)

Exhibit 10.19

EMPLOYMENT AGREEMENT

This EMPLOYMENT AGREEMENT (this "Agreement") is made and entered into as of this 22nd day of January, 2013 (the "Commencement Date") by and between FairPoint Communications, Inc. (the "Company"), a Delaware corporation, and Shirley J. Linn (the " Executive").

W I T N E S S E T H :

WHEREAS, the Company desires to employ Executive and to enter into this Agreement embodying the terms of such employment, and Executive desires to enter into this Agreement and to accept such employment, subject to the terms and provisions of this Agreement.

NOW, THEREFORE, in consideration of the promises and mutual covenants contained herein and for other good and valuable consideration, the receipt and sufficiency of which are mutually acknowledged, the Company and Executive hereby agree as follows:

Section 1. **Definitions**.

(a) "Accrued Obligations" shall mean (i) all accrued but unpaid Base Salary through the date of termination of Executive's employment, (ii) any unpaid or unreimbursed expenses incurred in accordance with Section 7 hereof, (iii) any benefits provided under the Company's employee benefit plans upon a termination of employment, in accordance with the terms contained therein, and (iv) any amounts payable under the FairPoint Communications, Inc. 2010 Long Term Incentive Plan ("LTIP"), in accordance with the terms contained therein.

(b) "Cause" shall mean (i) Executive's act(s) of gross negligence or willful misconduct in the course of Executive's employment hereunder, (ii) willful failure or refusal by Executive to perform in any material respect her duties or responsibilities, (iii) misappropriation (or attempted misappropriation) by Executive of any assets or business opportunities of the Company or any other member of the Company Group, (iv) embezzlement or fraud committed (or attempted) by Executive, or at her direction, (v) Executive's conviction of, indictment for, or pleading "guilty" or " no contest" to, (x) a felony or (y) any other criminal charge that has, or could be reasonably expected to have, an adverse impact on the performance of Executive's duties to the Company or any other member of the Company Group or otherwise result in material injury to the reputation or business of the Company or any other member of the Company Group, (vi) any material violation by Executive of the policies of the Company, including but not limited to those relating to sexual harassment or business conduct, and those otherwise set forth in the manuals or statements of policy of the Company, which violation has a material adverse effect on the Company, or (vii) Executive's material breach of this Agreement or material breach of the Non-Interference Agreement.

(c) "Change in Control" shall have the same meaning as defined in the LTIP, as in effect on the date hereof; provided, however, that there shall be no provision for any threatened or anticipated Change in Control that does not actually occur.

(d) "Disability" shall mean any physical or mental disability or infirmity of Executive that prevents the performance of Executive's duties for a period of (i) ninety (90) consecutive days or (ii) one hundred twenty (120) non-consecutive days during any twelve (12) month period. Any question as to the existence, extent, or potentiality of Executive's Disability upon which Executive and the Company cannot agree shall be determined by a qualified, independent physician selected by the Company and approved by Executive (which approval shall not be unreasonably withheld). The determination of any such physician shall be final and conclusive for all purposes of this Agreement.

(e) "Good Reason" shall mean, without Executive's consent, (i) a material reduction in Base Salary set forth in Section 4(a) hereof or Annual Bonus opportunity referred to in Section 4(b) hereof, (ii) the relocation of Executive's principal place of employment (as provided in Section 3(b) hereof) more than fifty (50) miles from its current location, or (iii) any other material breach of a provision of this Agreement by the Company (other than a provision that is covered by clause (i) or (ii) above). Executive acknowledges and agrees that her exclusive remedy in the event of any breach of this Agreement shall be to assert Good Reason pursuant to the terms and conditions of Section 8(e) hereof. Notwithstanding the foregoing, during the Term of Employment, in the event that the Board reasonably believes that Executive may have engaged in conduct that could constitute Cause hereunder, the Board may, in its sole and absolute discretion, suspend Executive from performing her duties hereunder, and in no event shall any such suspension constitute an event pursuant to which Executive may terminate employment with Good

Reason or otherwise constitute a breach hereunder; *provided*, that no such suspension shall alter the Company's obligations under this Agreement during such period of suspension.

(f) "Person" shall mean any individual, corporation, partnership, limited liability company, joint venture, association, joint -stock company, trust (charitable or non-charitable), unincorporated organization, or other form of business entity.

Section 2. **Acceptance and Term of Employment**.

The Company agrees to employ Executive, and Executive agrees to serve the Company, on the terms and conditions set forth herein. The term of employment (the "Term of Employment") shall commence on the Commencement Date and shall continue during the period ending on the close of business of the three (3) year anniversary of the Commencement Date, unless terminated sooner as provided in Section 8 or unless the Company has provided Executive with notice of its intention to renew the Term of Employment for a specific period of time, such notice to be given not less than one hundred twenty (120) days prior to the expiration of the three (3) year anniversary of the Commencement Date. Following the three year Term of Employment (or the applicable extension term, if any), the Executive shall continue on an at will basis until such time as the Company provides to Executive a written notice of termination pursuant to the provisions of Section 18 hereof.

Section 3. **Position, Duties, and Responsibilities; Place of Performance.**

(a) Position, Duties and Responsibilities. During the Term of Employment, Executive shall be employed and serve as Executive Vice President and General Counsel of the Company (with such title subject to change from time to time as determined by the Board of Directors of the Company (the "Board") together with such other position or positions consistent with Executive's title as the Chief Executive Officer of the Company (the "CEO") shall specify from time to time), and shall have such duties and responsibilities commensurate with such title. Executive also agrees to serve, at the request of the CEO, as an officer of any other direct or indirect subsidiary of the Company (each such subsidiary being, together with the Company, a member of the "Company Group"), in each case without additional compensation.

(b) Performance. Executive shall devote her full business time, attention, skill, and best efforts to the performance of her duties under this Agreement and shall not engage in any other business or occupation during the Term of Employment, including, without limitation, any activity that (x) conflicts with the interests of the Company or any other member of the Company Group, (y) interferes with the proper and efficient performance of Executive's duties for the Company, or (z) interferes with Executive's exercise of judgment in the Company's best interests. Notwithstanding the foregoing, nothing herein shall preclude Executive from (i) serving, with the prior written consent of the CEO, as a member of the boards of directors or advisory boards (or their equivalents in the case of a non-corporate entity) of non-competing businesses and charitable organizations, (ii) engaging in charitable activities and community affairs, and (iii) managing personal investments and affairs; *provided*, *however*, that the activities set out in clauses (i), (ii) and (iii) shall be limited by Executive so as not to interfere, individually or in the aggregate, with the performance of her duties and responsibilities hereunder. Executive's principal place of employment shall be in Charlotte, North Carolina, although Executive understands and agrees that she may be required to travel from time to time for business reasons.

Section 4. **Compensation**.

During the Term of Employment, Executive shall be entitled to the following compensation:

(a) Base Salary. Executive shall be paid an annualized base salary (the "Base Salary"), payable in accordance with the regular payroll practices of the Company, of not less than Three Hundred Ten Thousand Dollars ($310,000), with increases, if any, as may be approved in writing by the Compensation Committee of the Board of Directors (the "Compensation Committee").

(b) Annual Bonus. Executive shall be eligible for an annual incentive bonus award (the "Annual Bonus") through participation in the Company's Annual Incentive Plan in respect of each fiscal year during the Term of Employment, with the actual Annual Bonus payable being based upon the level of achievement of annual Company and individual performance objectives for such fiscal year, as determined by the Compensation Committee and communicated to Executive. The Annual Bonus shall be paid to Executive at the same time as annual bonuses are generally payable to other senior executives of the Company subject to Executive's continuous employment through the payment date.

(c) Other Plans. Executive shall be eligible for consideration by the Compensation Committee to participate in the benefit and other plans made available generally to senior executives of the Company, including but not limited to the LTIP, subject to the terms and conditions as may be established from time to time by the Compensation Committee and communicated

to Executive. Upon the occurrence of a Change in Control, all of Executive's unvested benefits under the LTIP shall be accelerated and shall vest in full.

(d) Indemnification. The Company shall indemnify Executive and hold Executive harmless in connection with the defense of any lawsuit or other claim to which she is made a party by reason of being an officer or employee of the Company, to the fullest extent permitted by the laws of the State of Delaware, as in effect at the time of the subject act or omission; *provided* that any settlement, consent to judgment, or similar action taken by Executive without the prior written consent of the Company in respect of any such lawsuit or other claim shall not be subject to indemnification hereunder.

Section 5. **Employee Benefits**.

During the Term of Employment, Executive shall be entitled to participate in health, insurance, retirement, and other benefits provided generally to similarly situated employees of the Company. Executive shall also be entitled to the same number of holidays, vacation days, and sick days, as well as any other benefits, in each case as are generally allowed to similarly situated employees of the Company in accordance with the Company policy as in effect from time to time. Nothing contained herein shall be construed to limit the Company's ability to amend, suspend, or terminate any employee benefit plan or policy at any time without providing Executive notice, and the right to do so is expressly reserved.

Section 6. **Key-Man Insurance**.

At any time during the Term of Employment, the Company shall have the right to insure the life of Executive for the sole benefit of the Company, in such amounts, and with such terms, as it may determine. All premiums payable thereon shall be the obligation of the Company. Executive shall have no interest in any such policy, but agrees to cooperate with the Company in procuring such insurance by submitting to physical examinations, supplying all information required by the insurance company, and executing all necessary documents, provided that no financial obligation is imposed on Executive by any such documents.

Section 7. **Reimbursement of Business Expenses**.

Executive is authorized to incur reasonable business expenses in carrying out her duties and responsibilities under this Agreement, and the Company shall promptly reimburse her for all such reasonable business expenses, subject to documentation in accordance with the Company's policy, as in effect from time to time.

Section 8. **Termination of Employment.**

(a) General. The Term of Employment shall terminate upon the earliest to occur of (i) Executive's death, (ii) a termination by reason of a Disability, (iii) a termination by the Company with or without Cause, (iv) a termination by Executive with or without Good Reason, and (v) delivery by the Company to Executive of a termination notice at any time subsequent to the close of business on the last day of the Term of Employment. Upon any termination of Executive's employment for any reason, except as may otherwise be requested by the Company in writing and agreed upon in writing by Executive, Executive shall resign from any and all directorships, committee memberships, and any other positions Executive holds with the Company or any other member of the Company Group. Notwithstanding anything herein to the contrary, the payment (or commencement of a series of payments) hereunder of any nonqualified deferred compensation (within the meaning of Section 409A of the Internal Revenue Code of 1986, as amended, and the rules and regulations promulgated thereunder (the "Code")) upon a termination of employment shall be delayed until such time as Executive has also undergone a "separation from service" as defined in Treas. Reg. 1.409A-1(h), at which time such nonqualified deferred compensation (calculated as of the date of Executive's termination of employment hereunder) shall be paid (or commence to be paid) to Executive on the schedule set forth in this Section 8 as if Executive had undergone such termination of employment (under the same circumstances) on the date of her ultimate "separation from service."

(b) Termination Due to Death or Disability. Executive's employment shall terminate automatically upon her death. The Company may terminate Executive's employment immediately upon the occurrence of a Disability, such termination to be effective upon Executive's receipt of written notice of such termination. Upon Executive's death or in the event that Executive's employment is terminated due to her Disability, Executive or her estate or her beneficiaries, as the case may be, shall be entitled to:

(i) The Accrued Obligations;

(ii) Any unpaid Annual Bonus in respect of any completed fiscal year that has ended prior to the date of such termination, which amount shall be paid at such time annual bonuses are paid to other senior executives of

the Company, but in no event later than the date that is 2½ months following the last day of the fiscal year in which such termination occurred.

Following Executive's death or a termination of Executive's employment by reason of a Disability, except as set forth in this Section 8(b), Executive shall have no further rights to any compensation or any other benefits under this Agreement.

(c) Termination by the Company with Cause.

(i) The Company may terminate Executive's employment at any time with Cause, effective upon Executive's receipt of written notice of such termination; *provided*, *however*, that with respect to any Cause termination relying on clause (ii) of the definition of Cause set forth in Section 1(b) hereof, to the extent that such act or acts or failure or failures to act are curable, Executive shall be given not less than ten (10) days' written notice by the Board of its intention to terminate her with Cause, such notice to state in detail the particular act or acts or failure or failures to act that constitute the grounds on which the proposed termination with Cause is based, and such termination shall be effective at the expiration of such ten (10) day notice period unless Executive has fully cured such act or acts or failure or failures to act that give rise to Cause during such period.

(ii) In the event that the Company terminates Executive's employment with Cause, she shall be entitled only to the Accrued Obligations. Following such termination of Executive's employment with Cause, except as set forth in this Section 8(c)(ii), Executive shall have no further rights to any compensation or any other benefits under this Agreement.

(d) Termination by the Company without Cause or upon Delivery of a Termination Notice from the Company to the Executive . The Company may terminate Executive's employment at any time without Cause, effective upon Executive's receipt of written notice of such termination, or by delivery to Executive of a written notice of termination in accordance with the provisions of Section 2 above.

(i) In the event that Executive's employment is terminated by the Company without Cause (other than due to death or Disability) or upon the Company's delivery of a termination notice, in either case prior to the expiration of the Term of Employment (for example, the termination must be effected or the termination notice must be delivered to Executive prior to the expiration of three (3) years from the Commencement Date), Executive shall be entitled to:

(A) The Accrued Obligations, paid as soon as practicable following Executive's termination of employment, but in no event later than the date that is 2½ months following the last day of the fiscal year in which such termination occurred;

(B) Any unpaid Annual Bonus in respect of any completed fiscal year that has ended prior to the date of such termination, which amount shall be paid at such time annual bonuses are paid to other senior executives of the Company, but in no event later than the date that is 2½ months following the last day of the fiscal year in which such termination occurred;

(C) An amount equal to the sum of:

(x) two (2) times the amount of Executive's then-current Base Salary, paid as soon as practicable following Executive's termination of employment, but in no event later than the date that is 2½ months following the last day of the fiscal year in which such termination occurred;

(y) two (2) times the amount of Executive's average Annual Bonus where such average is determined by reference to the actual Annual Bonus paid to Executive for the immediately two (2) preceding fiscal years, paid as soon as practicable following Executive's termination of employment, but in no event later than the date that is 2½ months following the last day of the fiscal year in which such termination occurred;

(z) the cost of continued health and disability insurance coverage for Executive and her covered dependents during the twenty four (24) months following such termination, based on the monthly cost of continuation coverage under COBRA as of the date of termination, as applicable, under the applicable Company benefit plans, such amounts to be paid in accordance with the Company's regular payroll practices; and

(D) if any such termination is within six (6) months before or six (6) months after a Change in Control, the amount payable under Section 8(d)(i)(C)(y) shall be adjusted to the greater of (A) the amount payable under Section 8(d)(i)(C)(y), or (B) two (2) times the amount of Executive's target Annual Bonus for the current fiscal year. To the extent that the amount payable under this Section 8(d)(i)(D) is greater than the amount payable under Section 8(d)(i)(C), the deficiency shall be paid at the effective time of the occurrence of a Change in Control.

(ii) In the event that Executive's employment is terminated by the Company without Cause (other than due to death or Disability) or upon the Company's delivery of a termination notice, in either case after the expiration of the Term of Employment (for example, the termination is effected or the termination notice is delivered to Executive subsequent to the expiration of three (3) years from the Commencement Date, herein an "At Will Termination"), Executive shall be entitled to the Accrued Obligations only; provided, however, if the At Will Termination is effected within six (6) months prior to a Change in Control, Executive shall be entitled to each of the payments and benefits described in clauses (B), (C) and (D) above.

Notwithstanding the foregoing, the payments and benefits described in clauses (B), (C) and (D) above shall immediately terminate, and the Company shall have no further obligations to Executive with respect thereto, in the event that Executive breaches any provision of the Non-Interference Agreement.

Following such termination of Executive's employment by the Company without Cause or upon the Company's delivery to Executive of a termination notice, except as set forth in this Section 8(d), Executive shall have no further rights to any compensation or any other benefits under this Agreement.

For the avoidance of doubt, Executive's sole and exclusive remedy upon a termination of employment by the Company without Cause or upon the expiration of the Term of Employment, in either case following the Company's delivery to Executive of a termination notice which termination is effected or where the termination notice is delivered prior to the expiration of the date that is three (3) years subsequent to the Commencement Date, shall be receipt of the Severance Benefits and the Accrued Obligations.

(e) Termination by Executive with Good Reason. Executive may terminate her employment with Good Reason by providing the Company thirty (30) days' written notice setting forth in reasonable specificity the event that constitutes Good Reason, which written notice, to be effective, must be provided to the Company within sixty (60) days of the initial occurrence of such event. During such thirty (30) day notice period, the Company shall have a cure right (if curable), and if not cured within such period, Executive's termination will be effective upon the expiration of such cure period. Executive shall be entitled to the same payments and benefits as provided in Section 8(d) hereof for a termination by the Company without Cause, subject to the same conditions on payment and benefits as described in Section 8(d) hereof; provided, however, that Executive shall also be entitled to accelerated vesting of the next tranche of benefits payable under the LTIP. Following such termination of Executive's employment by Executive with Good Reason, except as set forth in this Section 8(e), Executive shall have no further rights to any compensation or any other benefits under this Agreement. For the avoidance of doubt, Executive's sole and exclusive remedy upon a termination of employment with Good Reason shall be receipt of the amounts as set forth in this Section 8(e).

(f) Termination by Executive without Good Reason or upon Delivery by Executive to Company of a Termination Notice. Executive may terminate her employment without Good Reason by providing the Company thirty (30) days' written notice of such termination or by delivery of a written termination notice in accordance with the provisions of Section 2 above. In the event of a termination of employment by Executive under this Section 8(f), Executive shall be entitled only to the Accrued Obligations. In the event of termination of Executive's employment without Good Reason, the Company may, in its sole and absolute discretion, by written notice accelerate such date of termination without changing the characterization of such termination as a termination by Executive without Good Reason. Following such termination of Executive's employment by Executive without Good Reason or upon Executive's delivery to Company of a termination notice, except as set forth in this Section 8(f), Executive shall have no further rights to any compensation or any other benefits under this Agreement.

(g) Release. Notwithstanding any provision herein to the contrary, the payment of any amount or provision of any benefit pursuant to subsection (b), (d), or (e) of this Section 8 (other than the Accrued Obligations) (collectively, the "Severance Benefits") shall be conditioned upon Executive's execution, delivery to the Company, and non-revocation of a release of claims (under a release of claims form, the form and content of which are acceptable to the Company, and the expiration of any revocation period contained in such release of claims) within sixty (60) days following the date of Executive's termination of employment hereunder. If Executive fails to execute the release of claims in such a timely manner so as to permit any revocation period to expire prior to the end of such sixty (60) day period, or timely revokes her acceptance of such release following its execution, Executive shall not be entitled to any of the Severance Benefits. Further, to the extent that any of the Severance Benefits constitutes "nonqualified deferred compensation" for purposes of Section 409A of the Code, any payment of any amount or provision of any benefit otherwise scheduled to occur prior to the sixtieth (60th) day following the date of Executive's termination of employment hereunder, but for the condition on executing the release of claims as set forth herein, shall not be made until the first regularly scheduled payroll date following such sixtieth (60 th) day, after which any remaining Severance Benefits shall thereafter be provided to Executive according to the applicable schedule set forth herein. For the avoidance of doubt, in the event of a termination due to Executive's death or Disability, Executive's obligations herein to execute and not revoke the release of claims may be satisfied on her behalf by her estate or a person having legal power of attorney over her affairs.

Section 9. **Non-Interference Agreement**.

As a condition to receipt of the benefits set forth under this Agreement, to which Executive acknowledges are incremental to the benefits and compensation available to Executive immediately prior to the Commencement Date, Executive shall have executed and delivered to the Company a non-interference agreement (the "Non-Interference Agreement") in the form of the Confidentiality, Non-Interference and Invention Assignment Agreement attached hereto as Exhibit A. The parties hereto acknowledge and agree that this Agreement and the Non-Interference Agreement shall be considered separate contracts.

Section 10. **Representations and Warranties of Executive**.

Executive represents and warrants to the Company that:

(a) Executive is entering into this Agreement voluntarily and that her employment hereunder and compliance with the terms and conditions hereof will not conflict with or result in the breach by her of any agreement to which she is a party or by which she may be bound;

(b) Executive has not violated, and in connection with her employment with the Company will not violate, any non-solicitation, non-competition, or other similar covenant or agreement of a prior employer by which she is or may be bound; and

(c) in connection with her employment with the Company, Executive will not use any confidential or proprietary information she may have obtained in connection with employment with any prior employer.

Section 11. **Taxes**.

The Company may withhold from any payments made under this Agreement all applicable taxes, including but not limited to income, employment, and social insurance taxes, as shall be required by law. Executive acknowledges and represents that the Company has not provided any tax advice to her in connection with this Agreement and that she has been advised by the Company to seek tax advice from her own tax advisors regarding this Agreement and payments that may be made to her pursuant to this Agreement, including specifically, the application of the provisions of Section 409A of the Code to such payments.

Section 12. **Mitigation; Company Recovery Rights**.

Executive shall not be required to mitigate the amount of any payment provided pursuant to this Agreement by seeking other employment or otherwise, and the amount of any payment provided for pursuant to this Agreement shall not be reduced by any compensation earned as a result of Executive's other employment or otherwise. Any payment pursuant to this Agreement shall, however, be subject to any rights the Company may have under Section 304(b) of the Sarbanes-Oxley Act of 2002 or Section 954 of the Dodd-Frank Wall Street Reform and Consumer Protection Act.

Section 13. **Additional Section 409A Provisions**.

Notwithstanding any provision in this Agreement to the contrary:

(a) Any payment otherwise required to be made hereunder to Executive at any date as a result of the termination of Executive's employment shall be delayed for such period of time as may be necessary to meet the requirements of Section 409A(a)(2)(B)(i) of the Code (the " Delay Period"). On the first business day following the expiration of the Delay Period, Executive shall be paid, in a single cash lump sum, an amount equal to the aggregate amount of all payments delayed pursuant to the preceding sentence, and any remaining payments not so delayed shall continue to be paid pursuant to the payment schedule set forth herein.

(b) Each payment in a series of payments hereunder shall be deemed to be a separate payment for purposes of Section 409A of the Code.

(c) To the extent that any right to reimbursement of expenses or payment of any benefit in-kind under this Agreement constitutes nonqualified deferred compensation (within the meaning of Section 409A of the Code), (i) any such expense reimbursement shall be made by the Company no later than the last day of the taxable year following the taxable year in which such expense was incurred by Executive, (ii) the right to reimbursement or in-kind benefits shall not be subject to liquidation or exchange for another benefit, and (iii) the amount of expenses eligible for reimbursement or in-kind benefits provided during any taxable year shall not affect the expenses eligible for reimbursement or in-kind benefits to be provided in any other taxable year; *provided*, that the foregoing clause shall not be violated with regard to expenses reimbursed under any arrangement covered by Section 105(b) of the Code solely because such expenses are subject to a limit related to the period the arrangement is in effect.

(d) While the payments and benefits provided hereunder are intended to be structured in a manner to avoid the implication of any penalty taxes under Section 409A of the Code, in no event whatsoever shall the Company or any member of the Company Group be liable for any additional tax, interest, or penalties that may be imposed on Executive as a result of Section 409A of the Code or any damages for failing to comply with Section 409A of the Code (other than for withholding obligations or other obligations applicable to employers, if any, under Section 409A of the Code).

Section 14. **Successors and Assigns; No Third-Party Beneficiaries** .

(a) The Company. This Agreement shall inure to the benefit of the Company and its respective successors and assigns. Neither this Agreement nor any of the rights, obligations, or interests arising hereunder may be assigned by the Company to a Person (other than another member of the Company Group, or its or their respective successors) without Executive's prior written consent (which shall not be unreasonably withheld, delayed, or conditioned); *provided*, *however*, that in the event of a sale of all or substantially all of the assets of the Company, the Company may provide that this Agreement will be assigned to, and assumed by, the acquiror of such assets, it being agreed that in such circumstances, Executive's consent will not be required in connection therewith.

(b) Executive. Executive's rights and obligations under this Agreement shall not be transferable by Executive by assignment or otherwise, without the prior written consent of the Company; *provided*, *however*, upon Executive's death, all amounts then payable to Executive hereunder shall be paid in accordance with the terms of this Agreement to Executive's devisee, legatee, or other designee, or if there be no such designee, to Executive's estate.

(c) No Third-Party Beneficiaries. Except as otherwise set forth in Section 8(b) or Section 14(b) hereof, nothing expressed or referred to in this Agreement will be construed to give any Person other than the Company, the other members of the Company Group, and Executive any legal or equitable right, remedy, or claim under or with respect to this Agreement or any provision of this Agreement.

Section 15. **Waiver and Amendments**.

Any waiver, alteration, amendment, or modification of any of the terms of this Agreement shall be valid only if made in writing and signed by each of the parties hereto; *provided*, *however*, that any such waiver, alteration, amendment, or modification must be consented to on the Company's behalf by the Board. No waiver by either of the parties hereto of their rights hereunder shall be deemed to constitute a waiver with respect to any subsequent occurrences or transactions hereunder unless such waiver specifically states that it is to be construed as a continuing waiver.

Section 16. **Severability.**

If any covenants or such other provisions of this Agreement are found to be invalid or unenforceable by a final determination of a court of competent jurisdiction, (a) the remaining terms and provisions hereof shall be unimpaired, and (b) the invalid or unenforceable term or provision hereof shall be deemed replaced by a term or provision that is valid and enforceable and that comes closest to expressing the intention of the invalid or unenforceable term or provision hereof.

Section 17. **Governing Law and Jurisdiction.**

THIS AGREEMENT IS GOVERNED BY AND IS TO BE CONSTRUED UNDER THE LAWS OF THE STATE OF NORTH CAROLINA, WITHOUT REGARD TO CONFLICT OF LAWS RULES. ANY DISPUTE OR CLAIM ARISING OUT OF OR RELATING TO THIS AGREEMENT OR CLAIM OF BREACH HEREOF SHALL BE BROUGHT EXCLUSIVELY IN FEDERAL COURT IN THE STATE OF NORTH CAROLINA. BY EXECUTION OF THE AGREEMENT, THE PARTIES

HERETO, AND THEIR RESPECTIVE AFFILIATES, CONSENT TO THE EXCLUSIVE JURISDICTION OF SUCH COURT, AND WAIVE ANY RIGHT TO CHALLENGE JURISDICTION OR VENUE IN SUCH COURT WITH REGARD TO ANY SUIT, ACTION, OR PROCEEDING UNDER OR IN CONNECTION WITH THE AGREEMENT. EACH PARTY TO THIS AGREEMENT ALSO HEREBY WAIVES ANY RIGHT TO TRIAL BY JURY IN CONNECTION WITH ANY SUIT, ACTION, OR PROCEEDING UNDER OR IN CONNECTION WITH THIS AGREEMENT.

Section 18. **Notices.**

(a) Place of Delivery. Every notice or other communication relating to this Agreement shall be in writing, and shall be mailed to or delivered to the party for whom or which it is intended at such address as may from time to time be designated by it in a notice mailed or delivered to the other party as herein provided; *provided*, that unless and until some other address be so designated, all notices and communications by Executive to the Company shall be mailed or delivered to the Company at its principal executive office, Attention: General Counsel, and all notices and communications by the Company to Executive may be given to Executive personally or may be mailed to Executive at Executive's last known address, as reflected in the Company's records.

(b) Date of Delivery. Any notice so addressed shall be deemed to be given (i) if delivered by hand, on the date of such delivery, (ii) if mailed by courier or by overnight mail, on the first business day following the date of such mailing, and (iii) if mailed by registered or certified mail, on the third business day after the date of such mailing.

Section 19. **Section Headings.**

The headings of the sections and subsections of this Agreement are inserted for convenience only and shall not be deemed to constitute a part thereof or affect the meaning or interpretation of this Agreement or of any term or provision hereof.

Section 20. **Entire Agreement.**

This Agreement, together with any exhibits attached hereto, constitutes the entire understanding and agreement of the parties hereto regarding the employment of Executive. This Agreement supersedes all prior negotiations, discussions, correspondence, communications, understandings, and agreements between the parties relating to the subject matter of this Agreement.

Section 21. **Survival of Operative Sections.**

Upon any termination of Executive's employment, the provisions of Section 8 through Section 22 of this Agreement (together with any related definitions set forth in Section 1 hereof) shall survive to the extent necessary to give effect to the provisions thereof.

Section 22. **Counterparts.**

This Agreement may be executed in two or more counterparts, each of which shall be deemed to be an original but all of which together shall constitute one and the same instrument. The execution of this Agreement may be by actual or facsimile signature.

* * *

[Signatures to appear on the following page.]

IN WITNESS WHEREOF, the undersigned have executed this Agreement as of the date first above written.

FAIRPOINT COMMUNICATIONS, INC.

/s/ Paul H. Sunu
By: Paul H. Sunu
Title: Chief Executive Officer

EXECUTIVE

/s/ Shirley J. Linn
Shirley J. Linn

CONFIDENTIALITY, NON-INTERFERENCE, AND INVENTION ASSIGNMENT AGREEMENT

In consideration of FairPoint Communications, Inc., a Delaware corporation (the "Company"), providing me with an employment agreement of even date herewith, and my receipt of the compensation now and hereafter paid to me by the Company, including the additional benefits and compensation provided to me under my employment agreement, I agree to the following:

Section 1. **Confidential Information.**

(a) Company Group Information. I acknowledge that, during the course of my employment, I will have access to information about the Company and its direct and indirect subsidiaries and affiliates (collectively, the "Company Group") and that my employment with the Company shall bring me into close contact with confidential and proprietary information of the Company Group. In recognition of the foregoing, I agree, at all times during the term of my employment with the Company and for the three (3) year period following my termination of my employment for any reason, to hold in confidence, and not to use, except for the benefit of the Company Group, or to disclose to any person, firm, corporation, or other entity without written authorization of the Company, any Confidential Information that I obtain or create. I understand that "Confidential Information" means information that the Company Group has developed, acquired, created, compiled, discovered, or owned or will develop, acquire, create, compile, discover, or own, that has value in or to the business of the Company Group that is not generally known and that the Company wishes to maintain as confidential. I understand that Confidential Information includes, but is not limited to, any and all non-public information that relates to the actual or anticipated business and/or products, research, or development of the Company, or to the Company's technical data, trade secrets, or know-how, including, but not limited to, research, product plans, or other information regarding the Company's products or services and markets, customer lists, and customers (including, but not limited to, customers of the Company on whom I called or with whom I may become acquainted during the term of my employment), software, developments, inventions, processes, formulas, technology, designs, drawings, engineering, hardware configuration information, marketing, finances, and other business information disclosed by the Company either directly or indirectly in writing, orally, or by drawings or inspection of premises, parts, equipment, or other Company property. Notwithstanding the foregoing, Confidential Information shall not include (i) any of the foregoing items that have become publicly known through no unauthorized disclosure by me or others who were under confidentiality obligations as to the item or items involved, (ii) any information that I am required to disclose to, or by, any governmental or judicial authority, (iii) any information known to me prior to my employment with the Company, other than information acquired in preparation for my service to the Company, or (iv) any information developed independently by me that does not relate to the business of the Company Group; *provided*, *however*, that in the event of such requirement to disclose I will give the Company prompt written notice thereof so that the Company Group may seek an appropriate protective order and/or waive in writing compliance with the confidentiality provisions of this Confidentiality, Non-Interference, and Invention Assignment Agreement (the "Non-Interference Agreement").

(b) Former Employer Information. I represent that my performance of all of the terms of this Non-Interference Agreement as an employee of the Company has not breached and will not breach any agreement to keep in confidence proprietary information, knowledge, or data acquired by me in confidence or trust prior or subsequent to the commencement of my employment with the Company, and I will not disclose to any member of the Company Group, or induce any member of the Company Group to use, any developments, or confidential or proprietary information or material I may have obtained in connection with employment with any prior employer in violation of a confidentiality agreement, nondisclosure agreement, or similar agreement with such prior employer.

Section 2. **Developments**.

(a) Developments Retained and Licensed. If, during any period during which I perform or performed services for the Company Group (the "Assignment Period"), whether as an officer, employee, director, independent contractor, consultant, or agent, or in any other capacity, I incorporate (or have incorporated) into a Company Group product or process any development, original work of authorship, improvement, or trade secret that I created or owned prior to the commencement of my employment or in which I have an interest (collectively referred to as "Prior Developments"), I hereby grant the Company, and the Company Group shall have, a non-exclusive, royalty-free, irrevocable, perpetual, transferable worldwide license (with the right to sublicense) to make, have made, copy, modify, make derivative works of, use, sell, and otherwise distribute such Prior Development as part of or in connection with such product or process.

(b) Assignment of Developments. I agree that I will, without additional compensation, promptly make full written disclosure to the Company, and will hold in trust for the sole right and benefit of the Company all developments, original works of authorship, inventions, concepts, know-how, improvements, trade secrets, and similar proprietary rights, whether or not patentable or registrable under copyright or similar laws, which I may solely or jointly conceive or develop or reduce to practice, or have solely or jointly conceived or developed or reduced to practice, or have caused or may cause to be conceived or

developed or reduced to practice, during the Assignment Period, whether or not during regular working hours, provided they either (i) relate at the time of conception, development or reduction to practice to the business of any member of the Company Group, or the actual or anticipated research or development of any member of the Company Group; (ii) result from or relate to any work performed for any member of the Company Group; or (iii) are developed through the use of equipment, supplies, or facilities of any member of the Company Group, or any Confidential Information, or in consultation with personnel of any member of the Company Group (collectively referred to as "Developments"). I further acknowledge that all Developments made by me (solely or jointly with others) within the scope of and during the Assignment Period are "works made for hire" (to the greatest extent permitted by applicable law) for which I am, in part, compensated by my salary, unless regulated otherwise by law, but that, in the event any such Development is deemed not to be a work made for hire, I hereby assign to the Company, or its designee, all my right, title, and interest throughout the world in and to any such Development.

(c) Maintenance of Records. I agree to keep and maintain adequate and current written records of all Developments made by me (solely or jointly with others) during the Assignment Period. The records may be in the form of notes, sketches, drawings, flow charts, electronic data or recordings, and any other format. The records will be available to and remain the sole property of the Company Group at all times. I agree not to remove such records from the Company's place of business except as expressly permitted by Company Group policy, which may, from time to time, be revised at the sole election of the Company Group for the purpose of furthering the business of the Company Group.

(d) Intellectual Property Rights. I agree to assist the Company, or its designee, at the Company's expense, in every way to secure the rights of the Company Group in the Developments and any copyrights, patents, trademarks, service marks, database rights, domain names, mask work rights, moral rights, and other intellectual property rights relating thereto in any and all countries, including the disclosure to the Company of all pertinent information and data with respect thereto, the execution of all applications, specifications, oaths, assignments, recordations, and all other instruments that the Company shall deem necessary in order to apply for, obtain, maintain, and transfer such rights and in order to assign and convey to the Company Group the sole and exclusive right, title, and interest in and to such Developments, and any intellectual property and other proprietary rights relating thereto. I further agree that my obligation to execute or cause to be executed, when it is in my power to do so, any such instrument or papers shall continue after the termination of the Assignment Period until the expiration of the last such intellectual property right to expire in any country of the world; *provided*, *however*, the Company shall reimburse me for my reasonable expenses incurred in connection with carrying out the foregoing obligation. If the Company is unable because of my mental or physical incapacity or unavailability for any other reason to secure my signature to apply for or to pursue any application for any United States or foreign patents or copyright registrations covering Developments or original works of authorship assigned to the Company as above, then I hereby irrevocably designate and appoint the Company and its duly authorized officers and agents as my agent and attorney in fact to act for and in my behalf and stead to execute and file any such applications or records and to do all other lawfully permitted acts to further the application for, prosecution, issuance, maintenance, and transfer of letters patent or registrations thereon with the same legal force and effect as if originally executed by me. I hereby waive and irrevocably quitclaim to the Company any and all claims, of any nature whatsoever, that I now or hereafter have for past, present, or future infringement of any and all proprietary rights assigned to the Company.

Section 3. **Returning Company Group Documents**.

I agree that, at the time of termination of my employment with the Company for any reason, I will deliver to the Company (and will not keep in my possession, recreate, or deliver to anyone else) any and all Confidential Information and all other documents, materials, information, and property developed by me pursuant to my employment or otherwise belonging to the Company. I agree further that any property situated on the Company's premises and owned by the Company (or any other member of the Company Group), including disks and other storage media, filing cabinets, and other work areas, is subject to inspection by personnel of any member of the Company Group at any time with or without notice.

Section 4. **Disclosure of Agreement**.

As long as it remains in effect, I will disclose the existence of this Non-Interference Agreement to any prospective employer, partner, co-venturer, investor, or lender prior to entering into an employment, partnership, or other business relationship with such person or entity.

Section 5. **Restrictions on Interfering**.

(a) Non-Competition. During the period of my employment with the Company (the "Employment Period") and the Post-Termination Non-Compete Period, I shall not, directly or indirectly, individually or on behalf of any person, company, enterprise, or entity, or as a sole proprietor, partner, stockholder, director, officer, principal, agent, or executive, or in any other capacity or relationship, engage in any Competitive Activities.

(b) Non-Interference. During the Employment Period and the Post-Termination Non-Interference Period, I shall not, directly or indirectly for my own account or for the account of any other individual or entity, engage in Interfering Activities; *provided*, *however*, that I shall not be deemed to violate this subsection (b) to the extent that any employee of any subsequent employer of mine, in the ordinary course of business, conducts any activity described in subsection (c)(iii)(C) below as to any Business Relation, provided that I have not directed or instructed any such employee (either personally or through another) to contact any such Business Relation.

(c) Definitions. For purposes of this Non-Interference Agreement :

(i) "Business Relation" shall mean any current or prospective client, customer, licensee, or other business relation of the Company Group, or any such relation that was a client, customer, licensee, or other business relation within the six (6) month period prior to the expiration of the Employment Period, in each case, to whom I provided services, or with whom I transacted business, or whose identity became known to me in connection with my relationship with or employment by the Company and is not publicly known.

(ii) "Competitive Activities" shall mean telecommunication services provided by a rural exchange carrier business which has substantial business operations in the state of Florida, Maine, New Hampshire, North Carolina, or Vermont.

(iii) "Interfering Activities" shall mean (A) encouraging, soliciting, or inducing, or in any manner attempting to encourage, solicit, or induce, any Person employed by, or providing consulting services to, any member of the Company Group to terminate such Person's employment or services (or in the case of a consultant, materially reducing such services) with the Company Group; (B) hiring any individual who was employed by the Company Group within the six (6) month period prior to the date of such hiring; or (C) encouraging, soliciting, or inducing, or in any manner attempting to encourage, solicit, or induce, any Business Relation to cease doing business with or reduce the amount of business conducted with the Company Group, or in any way interfering with the relationship between any such Business Relation and the Company Group.

(iv) "Person" shall mean any individual, corporation, partnership, limited liability company, joint venture, association, joint-stock company, trust (charitable or non-charitable), unincorporated organization, or other form of business entity.

(v) "Post-Termination Non-Compete Period" shall mean the period commencing on the date of the termination of the Employment Period for any reason and ending on the twelve (12) month anniversary of such date of termination.

(vi) "Post-Termination Non-Interference Period" shall mean the period commencing on the date of the termination of the Employment Period for any reason and ending on the twelve (12) month anniversary of such date of termination.

(d) Non-Disparagement. I agree that during the Employment Period, and at all times thereafter, I will not make any disparaging or defamatory comments regarding any member of the Company Group or its respective current or former directors, officers, or employees in any respect or make any comments concerning any aspect of my relationship with any member of the Company Group or any conduct or events which precipitated any termination of my employment from any member of the Company Group. However, my obligations under this subparagraph (d) shall not apply to disclosures required by applicable law, regulation, or order of a court or governmental agency.

Section 6. **Reasonableness of Restrictions**.

I acknowledge and recognize the highly competitive nature of the Company's business, that access to Confidential Information renders me special and unique within the Company's industry, and that I will have the opportunity to develop substantial relationships with existing and prospective clients, accounts, customers, consultants, contractors, investors, and strategic partners of the Company Group during the course of and as a result of my employment with the Company. In light of the foregoing, I recognize and acknowledge that the restrictions and limitations set forth in this Non-Interference Agreement are reasonable and valid in geographical and temporal scope and in all other respects and are essential to protect the value of the business and assets of the Company Group. I acknowledge further that the restrictions and limitations set forth in this Non-Interference Agreement will not materially interfere with my ability to earn a living following the termination of my employment with the Company and that my ability to earn a livelihood without violating such restrictions is a material condition to my employment with the Company.

Section 7. **Independence; Severability; Blue Pencil**.

Each of the rights enumerated in this Non-Interference Agreement shall be independent of the others and shall be in addition to and not in lieu of any other rights and remedies available to the Company Group at law or in equity. If any of the provisions of this Non-Interference Agreement or any part of any of them is hereafter construed or adjudicated to be invalid or unenforceable, the same shall not affect the remainder of this Non-Interference Agreement, which shall be given full effect without regard to the invalid portions. If any of the covenants contained herein are held to be invalid or unenforceable because of the duration of such provisions or the area or scope covered thereby, I agree that the court making such determination shall have the power to reduce the duration, scope, and/or area of such provision to the maximum and/or broadest duration, scope, and/or area permissible by law, and in its reduced form said provision shall then be enforceable.

Section 8. **Injunctive Relief**.

I expressly acknowledge that any breach or threatened breach of any of the terms and/or conditions set forth in this Non-Interference Agreement may result in irreparable injury to the members of the Company Group. Therefore, I hereby agree that, in addition to any other remedy that may be available to the Company, any member of the Company Group shall be entitled to seek injunctive relief, specific performance, or other equitable relief by a court of appropriate jurisdiction in the event of any breach or threatened breach of the terms of this Non-Interference Agreement without the necessity of proving irreparable harm or injury as a result of such breach or threatened breach. Notwithstanding any other provision to the contrary, I acknowledge and agree that the Post-Termination Non-Compete Period, or Post-Termination Non-Interference Period, as applicable, shall be tolled during any period of violation of any of the covenants in Section 5 hereof.

Section 9. **Cooperation**.

I agree that, following any termination of my employment, I will continue to provide reasonable cooperation to the Company and/or any other member of the Company Group and its or their respective counsel in connection with any investigation, administrative proceeding, or litigation relating to any matter that occurred during my employment in which I was involved or of which I have knowledge. As a condition of such cooperation, the Company shall reimburse me for reasonable out-of-pocket expenses incurred at the request of the Company with respect to my compliance with this paragraph. I also agree that, in the event that I am subpoenaed by any person or entity (including, but not limited to, any government agency) to give testimony or provide documents (in a deposition, court proceeding, or otherwise) that in any way relates to my employment by the Company and/or any other member of the Company Group, I will give prompt notice of such request to the Company and will make no disclosure until the Company and/or the other member of the Company Group has had a reasonable opportunity to contest the right of the requesting person or entity to such disclosure.

Section 10. **General Provisions**.

(a) Governing Law and Jurisdiction. THIS NON-INTERFERENCE AGREEMENT IS GOVERNED BY AND IS TO BE CONSTRUED UNDER THE LAWS OF THE STATE OF NORTH CAROLINA, WITHOUT REGARD TO CONFLICT OF LAWS RULES. ANY DISPUTE OR CLAIM ARISING OUT OF OR RELATING TO THIS NON-INTERFERENCE AGREEMENT OR CLAIM OF BREACH HEREOF SHALL BE BROUGHT EXCLUSIVELY IN FEDERAL COURT IN THE STATE OF NORTH CAROLINA.BY EXECUTION OF THE NON-INTERFERENCE AGREEMENT, THE PARTIES HERETO, AND THEIR RESPECTIVE AFFILIATES, CONSENT TO THE EXCLUSIVE JURISDICTION OF SUCH COURT, AND WAIVE ANY RIGHT TO CHALLENGE JURISDICTION OR VENUE IN SUCH COURT WITH REGARD TO ANY SUIT, ACTION, OR PROCEEDING UNDER OR IN CONNECTION WITH THE NON-INTERFERENCE AGREEMENT. EACH PARTY TO THIS NON-INTERFERENCE AGREEMENT ALSO HEREBY WAIVES ANY RIGHT TO TRIAL BY JURY IN CONNECTION WITH ANY SUIT ACTION, OR PROCEEDING UNDER OR IN CONNECTION WITH THIS NON-INTERFERENCE AGREEMENT.

(b) Entire Agreement. This Non-Interference Agreement sets forth the entire agreement and understanding between the Company and me relating to the subject matter herein and merges all prior discussions between us. No modification or amendment to this Non-Interference Agreement, nor any waiver of any rights under this Non-Interference Agreement, will be effective unless in writing signed by the party to be charged. Any subsequent change or changes in my duties, obligations, rights, or compensation will not affect the validity or scope of this Non-Interference Agreement.

(c) No Right of Continued Employment. I acknowledge and agree that nothing contained herein shall be construed as granting me any right to continued employment by the Company, and the right of the Company to terminate my employment at any time and for any reason, with or without cause, is specifically reserved.

(d) Successors and Assigns. This Non-Interference Agreement will be binding upon my heirs, executors, administrators, and other legal representatives and will be for the benefit of the Company, its successors, and its assigns. I expressly acknowledge and agree that this Non-Interference Agreement may be assigned by the Company without my consent to any other member of the Company Group as well as any purchaser of all or substantially all of the assets or stock of the Company, whether by purchase, merger, or other similar corporate transaction, provided that the license granted pursuant to Section 2(a) may be assigned to any third party by the Company without my consent.

(e) Survival. The provisions of this Non-Interference Agreement shall survive the termination of my employment with the Company and/or the assignment of this Non-Interference Agreement by the Company to any successor in interest or other assignee.

* * *

I, Shirley J. Linn, have executed this Confidentiality, Non-Interference, and Invention Assignment Agreement on the respective date set forth below:

Date: January 22, 2013 /s/ Shirley J. Linn
(Signature)

Exhibit 10.20

EMPLOYMENT AGREEMENT

This EMPLOYMENT AGREEMENT (this "Agreement") is made and entered into as of this 22nd day of January, 2013 (the "Commencement Date") by and between FairPoint Communications, Inc. (the "Company"), a Delaware corporation, and Peter G. Nixon (the " Executive").

W I T N E S S E T H :

WHEREAS, the Company desires to employ Executive and to enter into this Agreement embodying the terms of such employment, and Executive desires to enter into this Agreement and to accept such employment, subject to the terms and provisions of this Agreement.

NOW, THEREFORE, in consideration of the promises and mutual covenants contained herein and for other good and valuable consideration, the receipt and sufficiency of which are mutually acknowledged, the Company and Executive hereby agree as follows:

Section 1. **Definitions**.

(a) "Accrued Obligations" shall mean (i) all accrued but unpaid Base Salary through the date of termination of Executive's employment, (ii) any unpaid or unreimbursed expenses incurred in accordance with Section 7 hereof, (iii) any benefits provided under the Company's employee benefit plans upon a termination of employment, in accordance with the terms contained therein, and (iv) any amounts payable under the FairPoint Communications, Inc. 2010 Long Term Incentive Plan ("LTIP"), in accordance with the terms contained therein.

(b) "Cause" shall mean (i) Executive's act(s) of gross negligence or willful misconduct in the course of Executive's employment hereunder, (ii) willful failure or refusal by Executive to perform in any material respect his duties or responsibilities, (iii) misappropriation (or attempted misappropriation) by Executive of any assets or business opportunities of the Company or any other member of the Company Group, (iv) embezzlement or fraud committed (or attempted) by Executive, or at his direction, (v) Executive's conviction of, indictment for, or pleading "guilty" or " no contest" to, (x) a felony or (y) any other criminal charge that has, or could be reasonably expected to have, an adverse impact on the performance of Executive's duties to the Company or any other member of the Company Group or otherwise result in material injury to the reputation or business of the Company or any other member of the Company Group, (vi) any material violation by Executive of the policies of the Company, including but not limited to those relating to sexual harassment or business conduct, and those otherwise set forth in the manuals or statements of policy of the Company, which violation has a material adverse effect on the Company, or (vii) Executive's material breach of this Agreement or material breach of the Non-Interference Agreement.

(c) "Change in Control" shall have the same meaning as defined in the LTIP, as in effect on the date hereof; provided, however, that there shall be no provision for any threatened or anticipated Change in Control that does not actually occur.

(d) "Disability" shall mean any physical or mental disability or infirmity of Executive that prevents the performance of Executive's duties for a period of (i) ninety (90) consecutive days or (ii) one hundred twenty (120) non-consecutive days during any twelve (12) month period. Any question as to the existence, extent, or potentiality of Executive's Disability upon which Executive and the Company cannot agree shall be determined by a qualified, independent physician selected by the Company and approved by Executive (which approval shall not be unreasonably withheld). The determination of any such physician shall be final and conclusive for all purposes of this Agreement.

(e) "Good Reason" shall mean, without Executive's consent, (i) a material reduction in Base Salary set forth in Section 4(a) hereof or Annual Bonus opportunity referred to in Section 4(b) hereof, (ii) the relocation of Executive's principal place of employment (as provided in Section 3(b) hereof) more than fifty (50) miles from its current location, or (iii) any other material breach of a provision of this Agreement by the Company (other than a provision that is covered by clause (i) or (ii) above). Executive acknowledges and agrees that his exclusive remedy in the event of any breach of this Agreement shall be to assert Good Reason pursuant to the terms and conditions of Section 8(e) hereof. Notwithstanding the foregoing, during the Term of Employment, in the event that the Board reasonably believes that Executive may have engaged in conduct that could constitute Cause hereunder, the Board may, in its sole and absolute discretion, suspend Executive from performing his duties hereunder, and in no event shall any such suspension constitute an event pursuant to which Executive may terminate employment with Good

Reason or otherwise constitute a breach hereunder; *provided*, that no such suspension shall alter the Company's obligations under this Agreement during such period of suspension.

(f) "Person" shall mean any individual, corporation, partnership, limited liability company, joint venture, association, joint -stock company, trust (charitable or non-charitable), unincorporated organization, or other form of business entity.

Section 2. **Acceptance and Term of Employment**.

The Company agrees to employ Executive, and Executive agrees to serve the Company, on the terms and conditions set forth herein. The term of employment (the "Term of Employment") shall commence on the Commencement Date and shall continue during the period ending on the close of business of the three (3) year anniversary of the Commencement Date, unless terminated sooner as provided in Section 8 or unless the Company has provided Executive with notice of its intention to renew the Term of Employment for a specific period of time, such notice to be given not less than one hundred twenty (120) days prior to the expiration of the three (3) year anniversary of the Commencement Date. Following the three year Term of Employment (or the applicable extension term, if any), the Executive shall continue on an at will basis until such time as the Company provides to Executive a written notice of termination pursuant to the provisions of Section 18 hereof.

Section 3. **Position, Duties, and Responsibilities; Place of Performance.**

(a) Position, Duties and Responsibilities. During the Term of Employment, Executive shall be employed and serve as Executive Vice President, External Affairs and Operational Support of the Company (with such title subject to change from time to time as determined by the Board of Directors of the Company (the "Board") together with such other position or positions consistent with Executive's title as the Chief Executive Officer of the Company (the "CEO") shall specify from time to time), and shall have such duties and responsibilities commensurate with such title. Executive also agrees to serve, at the request of the CEO, as an officer of any other direct or indirect subsidiary of the Company (each such subsidiary being, together with the Company, a member of the "Company Group"), in each case without additional compensation.

(b) Performance. Executive shall devote his full business time, attention, skill, and best efforts to the performance of his duties under this Agreement and shall not engage in any other business or occupation during the Term of Employment, including, without limitation, any activity that (x) conflicts with the interests of the Company or any other member of the Company Group, (y) interferes with the proper and efficient performance of Executive's duties for the Company, or (z) interferes with Executive's exercise of judgment in the Company's best interests. Notwithstanding the foregoing, nothing herein shall preclude Executive from (i) serving, with the prior written consent of the CEO, as a member of the boards of directors or advisory boards (or their equivalents in the case of a non-corporate entity) of non-competing businesses and charitable organizations, (ii) engaging in charitable activities and community affairs, and (iii) managing personal investments and affairs; *provided*, *however*, that the activities set out in clauses (i), (ii) and (iii) shall be limited by Executive so as not to interfere, individually or in the aggregate, with the performance of his duties and responsibilities hereunder. Executive's principal place of employment shall be in Charlotte, North Carolina, although Executive understands and agrees that he may be required to travel from time to time for business reasons.

Section 4. **Compensation**.

During the Term of Employment, Executive shall be entitled to the following compensation:

(a) Base Salary. Executive shall be paid an annualized base salary (the "Base Salary"), payable in accordance with the regular payroll practices of the Company, of not less than Three Hundred Twenty-Five Thousand Dollars ($325,000), with increases, if any, as may be approved in writing by the Compensation Committee of the Board of Directors (the "Compensation Committee").

(b) Annual Bonus. Executive shall be eligible for an annual incentive bonus award (the "Annual Bonus") through participation in the Company's Annual Incentive Plan in respect of each fiscal year during the Term of Employment, with the actual Annual Bonus payable being based upon the level of achievement of annual Company and individual performance objectives for such fiscal year, as determined by the Compensation Committee and communicated to Executive. The Annual Bonus shall be paid to Executive at the same time as annual bonuses are generally payable to other senior executives of the Company subject to Executive's continuous employment through the payment date.

(c) Other Plans. Executive shall be eligible for consideration by the Compensation Committee to participate in the benefit and other plans made available generally to senior executives of the Company, including but not limited to the LTIP, subject to the terms and conditions as may be established from time to time by the Compensation Committee and communicated

to Executive. Upon the occurrence of a Change in Control, all of Executive's unvested benefits under the LTIP shall be accelerated and shall vest in full.

(d) Indemnification. The Company shall indemnify Executive and hold Executive harmless in connection with the defense of any lawsuit or other claim to which he is made a party by reason of being an officer or employee of the Company, to the fullest extent permitted by the laws of the State of Delaware, as in effect at the time of the subject act or omission; *provided* that any settlement, consent to judgment, or similar action taken by Executive without the prior written consent of the Company in respect of any such lawsuit or other claim shall not be subject to indemnification hereunder.

Section 5. **Employee Benefits**.

During the Term of Employment, Executive shall be entitled to participate in health, insurance, retirement, and other benefits provided generally to similarly situated employees of the Company. Executive shall also be entitled to the same number of holidays, vacation days, and sick days, as well as any other benefits, in each case as are generally allowed to similarly situated employees of the Company in accordance with the Company policy as in effect from time to time. Nothing contained herein shall be construed to limit the Company's ability to amend, suspend, or terminate any employee benefit plan or policy at any time without providing Executive notice, and the right to do so is expressly reserved.

Section 6. **Key-Man Insurance**.

At any time during the Term of Employment, the Company shall have the right to insure the life of Executive for the sole benefit of the Company, in such amounts, and with such terms, as it may determine. All premiums payable thereon shall be the obligation of the Company. Executive shall have no interest in any such policy, but agrees to cooperate with the Company in procuring such insurance by submitting to physical examinations, supplying all information required by the insurance company, and executing all necessary documents, provided that no financial obligation is imposed on Executive by any such documents.

Section 7. **Reimbursement of Business Expenses**.

Executive is authorized to incur reasonable business expenses in carrying out his duties and responsibilities under this Agreement, and the Company shall promptly reimburse him for all such reasonable business expenses, subject to documentation in accordance with the Company's policy, as in effect from time to time.

Section 8. **Termination of Employment.**

(a) General. The Term of Employment shall terminate upon the earliest to occur of (i) Executive's death, (ii) a termination by reason of a Disability, (iii) a termination by the Company with or without Cause, (iv) a termination by Executive with or without Good Reason, and (v) delivery by the Company to Executive of a termination notice at any time subsequent to the close of business on the last day of the Term of Employment. Upon any termination of Executive's employment for any reason, except as may otherwise be requested by the Company in writing and agreed upon in writing by Executive, Executive shall resign from any and all directorships, committee memberships, and any other positions Executive holds with the Company or any other member of the Company Group. Notwithstanding anything herein to the contrary, the payment (or commencement of a series of payments) hereunder of any nonqualified deferred compensation (within the meaning of Section 409A of the Internal Revenue Code of 1986, as amended, and the rules and regulations promulgated thereunder (the "Code")) upon a termination of employment shall be delayed until such time as Executive has also undergone a "separation from service" as defined in Treas. Reg. 1.409A-1(h), at which time such nonqualified deferred compensation (calculated as of the date of Executive's termination of employment hereunder) shall be paid (or commence to be paid) to Executive on the schedule set forth in this Section 8 as if Executive had undergone such termination of employment (under the same circumstances) on the date of his ultimate "separation from service."

(b) Termination Due to Death or Disability. Executive's employment shall terminate automatically upon his death. The Company may terminate Executive's employment immediately upon the occurrence of a Disability, such termination to be effective upon Executive's receipt of written notice of such termination. Upon Executive's death or in the event that Executive's employment is terminated due to his Disability, Executive or his estate or his beneficiaries, as the case may be, shall be entitled to:

(i) The Accrued Obligations;

(ii) Any unpaid Annual Bonus in respect of any completed fiscal year that has ended prior to the date of such termination, which amount shall be paid at such time annual bonuses are paid to other senior executives of

the Company, but in no event later than the date that is 2½ months following the last day of the fiscal year in which such termination occurred.

Following Executive's death or a termination of Executive's employment by reason of a Disability, except as set forth in this Section 8(b), Executive shall have no further rights to any compensation or any other benefits under this Agreement.

(c) Termination by the Company with Cause.

(i) The Company may terminate Executive's employment at any time with Cause, effective upon Executive's receipt of written notice of such termination; *provided*, *however*, that with respect to any Cause termination relying on clause (ii) of the definition of Cause set forth in Section 1(b) hereof, to the extent that such act or acts or failure or failures to act are curable, Executive shall be given not less than ten (10) days' written notice by the Board of its intention to terminate him with Cause, such notice to state in detail the particular act or acts or failure or failures to act that constitute the grounds on which the proposed termination with Cause is based, and such termination shall be effective at the expiration of such ten (10) day notice period unless Executive has fully cured such act or acts or failure or failures to act that give rise to Cause during such period.

(ii) In the event that the Company terminates Executive's employment with Cause, he shall be entitled only to the Accrued Obligations. Following such termination of Executive's employment with Cause, except as set forth in this Section 8(c)(ii), Executive shall have no further rights to any compensation or any other benefits under this Agreement.

(d) Termination by the Company without Cause or upon Delivery of a Termination Notice from the Company to the Executive. The Company may terminate Executive's employment at any time without Cause, effective upon Executive's receipt of written notice of such termination, or by delivery to Executive of a written notice of termination in accordance with the provisions of Section 2 above.

(i) In the event that Executive's employment is terminated by the Company without Cause (other than due to death or Disability) or upon the Company's delivery of a termination notice, in either case prior to the expiration of the Term of Employment (for example, the termination must be effected or the termination notice must be delivered to Executive prior to the expiration of three (3) years from the Commencement Date), Executive shall be entitled to:

(A) The Accrued Obligations, paid as soon as practicable following Executive's termination of employment, but in no event later than the date that is 2½ months following the last day of the fiscal year in which such termination occurred;

(B) Any unpaid Annual Bonus in respect of any completed fiscal year that has ended prior to the date of such termination, which amount shall be paid at such time annual bonuses are paid to other senior executives of the Company, but in no event later than the date that is 2½ months following the last day of the fiscal year in which such termination occurred;

(C) An amount equal to the sum of:

(x) two (2) times the amount of Executive's then-current Base Salary, paid as soon as practicable following Executive's termination of employment, but in no event later than the date that is 2½ months following the last day of the fiscal year in which such termination occurred;

(y) two (2) times the amount of Executive's average Annual Bonus where such average is determined by reference to the actual Annual Bonus paid to Executive for the immediately two (2) preceding fiscal years, paid as soon as practicable following Executive's termination of employment, but in no event later than the date that is 2½ months following the last day of the fiscal year in which such termination occurred;

(z) the cost of continued health and disability insurance coverage for Executive and his covered dependents during the twenty four (24) months following such termination, based on the monthly cost of continuation coverage under COBRA as of the date of termination, as applicable, under the applicable Company benefit plans, such amounts to be paid in accordance with the Company's regular payroll practices; and

(D) if any such termination is within six (6) months before or six (6) months after a Change in Control, the amount payable under Section 8(d)(i)(C)(y) shall be adjusted to the greater of (A) the amount payable under Section 8(d)(i)(C)(y), or (B) two (2) times the amount of Executive's target Annual Bonus for the current fiscal year. To the extent that the amount payable under this Section 8(d)(i)(D) is greater than the amount payable under Section 8(d)(i)(C), the deficiency shall be paid at the effective time of the occurrence of a Change in Control.

(ii) In the event that Executive's employment is terminated by the Company without Cause (other than due to death or Disability) or upon the Company's delivery of a termination notice, in either case after the expiration of the Term of Employment (for example, the termination is effected or the termination notice is delivered to Executive subsequent to the expiration of three (3) years from the Commencement Date, herein an "At Will Termination"), Executive shall be entitled to the Accrued Obligations only; provided, however, if the At Will Termination is effected within six (6) months prior to a Change in Control, Executive shall be entitled to each of the payments and benefits described in clauses (B), (C) and (D) above.

Notwithstanding the foregoing, the payments and benefits described in clauses (B), (C) and (D) above shall immediately terminate, and the Company shall have no further obligations to Executive with respect thereto, in the event that Executive breaches any provision of the Non-Interference Agreement.

Following such termination of Executive's employment by the Company without Cause or upon the Company's delivery to Executive of a termination notice, except as set forth in this Section 8(d), Executive shall have no further rights to any compensation or any other benefits under this Agreement.

For the avoidance of doubt, Executive's sole and exclusive remedy upon a termination of employment by the Company without Cause or upon the expiration of the Term of Employment, in either case following the Company's delivery to Executive of a termination notice which termination is effected or where the termination notice is delivered prior to the expiration of the date that is three (3) years subsequent to the Commencement Date, shall be receipt of the Severance Benefits and the Accrued Obligations.

(e) Termination by Executive with Good Reason. Executive may terminate his employment with Good Reason by providing the Company thirty (30) days' written notice setting forth in reasonable specificity the event that constitutes Good Reason, which written notice, to be effective, must be provided to the Company within sixty (60) days of the initial occurrence of such event. During such thirty (30) day notice period, the Company shall have a cure right (if curable), and if not cured within such period, Executive's termination will be effective upon the expiration of such cure period. Executive shall be entitled to the same payments and benefits as provided in Section 8(d) hereof for a termination by the Company without Cause, subject to the same conditions on payment and benefits as described in Section 8(d) hereof; provided, however, that Executive shall also be entitled to accelerated vesting of the next tranche of benefits payable under the LTIP. Following such termination of Executive's employment by Executive with Good Reason, except as set forth in this Section 8(e), Executive shall have no further rights to any compensation or any other benefits under this Agreement. For the avoidance of doubt, Executive's sole and exclusive remedy upon a termination of employment with Good Reason shall be receipt of the amounts as set forth in this Section 8(e).

(f) Termination by Executive without Good Reason or upon Delivery by Executive to Company of a Termination Notice. Executive may terminate his employment without Good Reason by providing the Company thirty (30) days' written notice of such termination or by delivery of a written termination notice in accordance with the provisions of Section 2 above. In the event of a termination of employment by Executive under this Section 8(f), Executive shall be entitled only to the Accrued Obligations. In the event of termination of Executive's employment without Good Reason, the Company may, in its sole and absolute discretion, by written notice accelerate such date of termination without changing the characterization of such termination as a termination by Executive without Good Reason. Following such termination of Executive's employment by Executive without Good Reason or upon Executive's delivery to Company of a termination notice, except as set forth in this Section 8(f), Executive shall have no further rights to any compensation or any other benefits under this Agreement.

(g) Release. Notwithstanding any provision herein to the contrary, the payment of any amount or provision of any benefit pursuant to subsection (b), (d), or (e) of this Section 8 (other than the Accrued Obligations) (collectively, the "Severance Benefits") shall be conditioned upon Executive's execution, delivery to the Company, and non-revocation of a release of claims (under a release of claims form, the form and content of which are acceptable to the Company, and the expiration of any revocation period contained in such release of claims) within sixty (60) days following the date of Executive's termination of employment hereunder. If Executive fails to execute the release of claims in such a timely manner so as to permit any revocation period to expire prior to the end of such sixty (60) day period, or timely revokes his acceptance of such release following its execution, Executive shall not be entitled to any of the Severance Benefits. Further, to the extent that any of the Severance Benefits constitutes "nonqualified deferred compensation" for purposes of Section 409A of the Code, any payment of any amount or provision of any benefit otherwise scheduled to occur prior to the sixtieth (60^{th}) day following the date of Executive's termination of employment hereunder, but for the condition on executing the release of claims as set forth herein, shall not be made until the first regularly scheduled payroll date following such sixtieth (60^{th}) day, after which any remaining Severance Benefits shall thereafter be provided to Executive according to the applicable schedule set forth herein. For the avoidance of doubt, in the event of a termination due to Executive's death or Disability, Executive's obligations herein to execute and not revoke the release of claims may be satisfied on his behalf by his estate or a person having legal power of attorney over his affairs.

Section 9. **Non-Interference Agreement**.

As a condition to receipt of the benefits set forth under this Agreement, to which Executive acknowledges are incremental to the benefits and compensation available to Executive immediately prior to the Commencement Date, Executive shall have executed and delivered to the Company a non-interference agreement (the "Non-Interference Agreement") in the form of the Confidentiality, Non-Interference and Invention Assignment Agreement attached hereto as Exhibit A. The parties hereto acknowledge and agree that this Agreement and the Non-Interference Agreement shall be considered separate contracts.

Section 10. **Representations and Warranties of Executive**.

Executive represents and warrants to the Company that:

(a) Executive is entering into this Agreement voluntarily and that his employment hereunder and compliance with the terms and conditions hereof will not conflict with or result in the breach by him of any agreement to which he is a party or by which he may be bound;

(b) Executive has not violated, and in connection with his employment with the Company will not violate, any non-solicitation, non-competition, or other similar covenant or agreement of a prior employer by which he is or may be bound; and

(c) in connection with his employment with the Company, Executive will not use any confidential or proprietary information he may have obtained in connection with employment with any prior employer.

Section 11. **Taxes**.

The Company may withhold from any payments made under this Agreement all applicable taxes, including but not limited to income, employment, and social insurance taxes, as shall be required by law. Executive acknowledges and represents that the Company has not provided any tax advice to him in connection with this Agreement and that he has been advised by the Company to seek tax advice from his own tax advisors regarding this Agreement and payments that may be made to him pursuant to this Agreement, including specifically, the application of the provisions of Section 409A of the Code to such payments.

Section 12. **Mitigation; Company Recovery Rights**.

Executive shall not be required to mitigate the amount of any payment provided pursuant to this Agreement by seeking other employment or otherwise, and the amount of any payment provided for pursuant to this Agreement shall not be reduced by any compensation earned as a result of Executive's other employment or otherwise. Any payment pursuant to this Agreement shall, however, be subject to any rights the Company may have under Section 304(b) of the Sarbanes-Oxley Act of 2002 or Section 954 of the Dodd-Frank Wall Street Reform and Consumer Protection Act.

Section 13. **Additional Section 409A Provisions**.

Notwithstanding any provision in this Agreement to the contrary:

(a) Any payment otherwise required to be made hereunder to Executive at any date as a result of the termination of Executive's employment shall be delayed for such period of time as may be necessary to meet the requirements of Section 409A(a)(2)(B)(i) of the Code (the "Delay Period"). On the first business day following the expiration of the Delay Period, Executive shall be paid, in a single cash lump sum, an amount equal to the aggregate amount of all payments delayed pursuant to the preceding sentence, and any remaining payments not so delayed shall continue to be paid pursuant to the payment schedule set forth herein.

(b) Each payment in a series of payments hereunder shall be deemed to be a separate payment for purposes of Section 409A of the Code.

(c) To the extent that any right to reimbursement of expenses or payment of any benefit in-kind under this Agreement constitutes nonqualified deferred compensation (within the meaning of Section 409A of the Code), (i) any such expense reimbursement shall be made by the Company no later than the last day of the taxable year following the taxable year in which such expense was incurred by Executive, (ii) the right to reimbursement or in-kind benefits shall not be subject to liquidation or exchange for another benefit, and (iii) the amount of expenses eligible for reimbursement or in-kind benefits provided during any taxable year shall not affect the expenses eligible for reimbursement or in-kind benefits to be provided in any other taxable year; *provided*, that the foregoing clause shall not be violated with regard to expenses reimbursed under any arrangement covered by Section 105(b) of the Code solely because such expenses are subject to a limit related to the period the arrangement is in effect.

(d) While the payments and benefits provided hereunder are intended to be structured in a manner to avoid the implication of any penalty taxes under Section 409A of the Code, in no event whatsoever shall the Company or any member of the Company Group be liable for any additional tax, interest, or penalties that may be imposed on Executive as a result of Section 409A of the Code or any damages for failing to comply with Section 409A of the Code (other than for withholding obligations or other obligations applicable to employers, if any, under Section 409A of the Code).

Section 14. **Successors and Assigns; No Third-Party Beneficiaries** .

(a) The Company. This Agreement shall inure to the benefit of the Company and its respective successors and assigns. Neither this Agreement nor any of the rights, obligations, or interests arising hereunder may be assigned by the Company to a Person (other than another member of the Company Group, or its or their respective successors) without Executive's prior written consent (which shall not be unreasonably withheld, delayed, or conditioned); *provided*, *however*, that in the event of a sale of all or substantially all of the assets of the Company, the Company may provide that this Agreement will be assigned to, and assumed by, the acquiror of such assets, it being agreed that in such circumstances, Executive's consent will not be required in connection therewith.

(b) Executive. Executive's rights and obligations under this Agreement shall not be transferable by Executive by assignment or otherwise, without the prior written consent of the Company; *provided*, *however*, upon Executive's death, all amounts then payable to Executive hereunder shall be paid in accordance with the terms of this Agreement to Executive's devisee, legatee, or other designee, or if there be no such designee, to Executive's estate.

(c) No Third-Party Beneficiaries. Except as otherwise set forth in Section 8(b) or Section 14(b) hereof, nothing expressed or referred to in this Agreement will be construed to give any Person other than the Company, the other members of the Company Group, and Executive any legal or equitable right, remedy, or claim under or with respect to this Agreement or any provision of this Agreement.

Section 15. **Waiver and Amendments**.

Any waiver, alteration, amendment, or modification of any of the terms of this Agreement shall be valid only if made in writing and signed by each of the parties hereto; *provided*, *however*, that any such waiver, alteration, amendment, or modification must be consented to on the Company's behalf by the Board. No waiver by either of the parties hereto of their rights hereunder shall be deemed to constitute a waiver with respect to any subsequent occurrences or transactions hereunder unless such waiver specifically states that it is to be construed as a continuing waiver.

Section 16. **Severability.**

If any covenants or such other provisions of this Agreement are found to be invalid or unenforceable by a final determination of a court of competent jurisdiction, (a) the remaining terms and provisions hereof shall be unimpaired, and (b) the invalid or unenforceable term or provision hereof shall be deemed replaced by a term or provision that is valid and enforceable and that comes closest to expressing the intention of the invalid or unenforceable term or provision hereof.

Section 17. **Governing Law and Jurisdiction.**

THIS AGREEMENT IS GOVERNED BY AND IS TO BE CONSTRUED UNDER THE LAWS OF THE STATE OF NORTH CAROLINA, WITHOUT REGARD TO CONFLICT OF LAWS RULES. ANY DISPUTE OR CLAIM ARISING OUT OF OR RELATING TO THIS AGREEMENT OR CLAIM OF BREACH HEREOF SHALL BE BROUGHT EXCLUSIVELY IN FEDERAL COURT IN THE STATE OF NORTH CAROLINA. BY EXECUTION OF THE AGREEMENT, THE PARTIES

HERETO, AND THEIR RESPECTIVE AFFILIATES, CONSENT TO THE EXCLUSIVE JURISDICTION OF SUCH COURT, AND WAIVE ANY RIGHT TO CHALLENGE JURISDICTION OR VENUE IN SUCH COURT WITH REGARD TO ANY SUIT, ACTION, OR PROCEEDING UNDER OR IN CONNECTION WITH THE AGREEMENT. EACH PARTY TO THIS AGREEMENT ALSO HEREBY WAIVES ANY RIGHT TO TRIAL BY JURY IN CONNECTION WITH ANY SUIT, ACTION, OR PROCEEDING UNDER OR IN CONNECTION WITH THIS AGREEMENT.

Section 18. **Notices.**

(a) Place of Delivery. Every notice or other communication relating to this Agreement shall be in writing, and shall be mailed to or delivered to the party for whom or which it is intended at such address as may from time to time be designated by it in a notice mailed or delivered to the other party as herein provided; *provided*, that unless and until some other address be so designated, all notices and communications by Executive to the Company shall be mailed or delivered to the Company at its principal executive office, Attention: General Counsel, and all notices and communications by the Company to Executive may be given to Executive personally or may be mailed to Executive at Executive's last known address, as reflected in the Company's records.

(b) Date of Delivery. Any notice so addressed shall be deemed to be given (i) if delivered by hand, on the date of such delivery, (ii) if mailed by courier or by overnight mail, on the first business day following the date of such mailing, and (iii) if mailed by registered or certified mail, on the third business day after the date of such mailing.

Section 19. **Section Headings.**

The headings of the sections and subsections of this Agreement are inserted for convenience only and shall not be deemed to constitute a part thereof or affect the meaning or interpretation of this Agreement or of any term or provision hereof.

Section 20. **Entire Agreement.**

This Agreement, together with any exhibits attached hereto, constitutes the entire understanding and agreement of the parties hereto regarding the employment of Executive. This Agreement supersedes all prior negotiations, discussions, correspondence, communications, understandings, and agreements between the parties relating to the subject matter of this Agreement.

Section 21. **Survival of Operative Sections.**

Upon any termination of Executive's employment, the provisions of Section 8 through Section 22 of this Agreement (together with any related definitions set forth in Section 1 hereof) shall survive to the extent necessary to give effect to the provisions thereof.

Section 22. **Counterparts.**

This Agreement may be executed in two or more counterparts, each of which shall be deemed to be an original but all of which together shall constitute one and the same instrument. The execution of this Agreement may be by actual or facsimile signature.

* * *

[Signatures to appear on the following page.]

IN WITNESS WHEREOF, the undersigned have executed this Agreement as of the date first above written.

FAIRPOINT COMMUNICATIONS, INC.

/s/ Paul H. Sunu
By: Paul H. Sunu
Title: Chief Executive Officer

EXECUTIVE

/s/ Peter G. Nixon
Peter G. Nixon

CONFIDENTIALITY, NON-INTERFERENCE, AND INVENTION ASSIGNMENT AGREEMENT

In consideration of FairPoint Communications, Inc., a Delaware corporation (the " Company"), providing me with an employment agreement of even date herewith, and my receipt of the compensation now and hereafter paid to me by the Company, including the additional benefits and compensation provided to me under my employment agreement, I agree to the following:

Section 1. **Confidential Information.**

(a) Company Group Information. I acknowledge that, during the course of my employment, I will have access to information about the Company and its direct and indirect subsidiaries and affiliates (collectively, the " Company Group") and that my employment with the Company shall bring me into close contact with confidential and proprietary information of the Company Group. In recognition of the foregoing, I agree, at all times during the term of my employment with the Company and for the three (3) year period following my termination of my employment for any reason, to hold in confidence, and not to use, except for the benefit of the Company Group, or to disclose to any person, firm, corporation, or other entity without written authorization of the Company, any Confidential Information that I obtain or create. I understand that "Confidential Information" means information that the Company Group has developed, acquired, created, compiled, discovered, or owned or will develop, acquire, create, compile, discover, or own, that has value in or to the business of the Company Group that is not generally known and that the Company wishes to maintain as confidential. I understand that Confidential Information includes, but is not limited to, any and all non-public information that relates to the actual or anticipated business and/or products, research, or development of the Company, or to the Company's technical data, trade secrets, or know-how, including, but not limited to, research, product plans, or other information regarding the Company's products or services and markets, customer lists, and customers (including, but not limited to, customers of the Company on whom I called or with whom I may become acquainted during the term of my employment), software, developments, inventions, processes, formulas, technology, designs, drawings, engineering, hardware configuration information, marketing, finances, and other business information disclosed by the Company either directly or indirectly in writing, orally, or by drawings or inspection of premises, parts, equipment, or other Company property. Notwithstanding the foregoing, Confidential Information shall not include (i) any of the foregoing items that have become publicly known through no unauthorized disclosure by me or others who were under confidentiality obligations as to the item or items involved, (ii) any information that I am required to disclose to, or by, any governmental or judicial authority, (iii) any information known to me prior to my employment with the Company, other than information acquired in preparation for my service to the Company, or (iv) any information developed independently by me that does not relate to the business of the Company Group; *provided*, *however*, that in the event of such requirement to disclose I will give the Company prompt written notice thereof so that the Company Group may seek an appropriate protective order and/or waive in writing compliance with the confidentiality provisions of this Confidentiality, Non-Interference, and Invention Assignment Agreement (the "Non-Interference Agreement").

(b) Former Employer Information. I represent that my performance of all of the terms of this Non-Interference Agreement as an employee of the Company has not breached and will not breach any agreement to keep in confidence proprietary information, knowledge, or data acquired by me in confidence or trust prior or subsequent to the commencement of my employment with the Company, and I will not disclose to any member of the Company Group, or induce any member of the Company Group to use, any developments, or confidential or proprietary information or material I may have obtained in connection with employment with any prior employer in violation of a confidentiality agreement, nondisclosure agreement, or similar agreement with such prior employer.

Section 2. **Developments**.

(a) Developments Retained and Licensed. If, during any period during which I perform or performed services for the Company Group (the "Assignment Period"), whether as an officer, employee, director, independent contractor, consultant, or agent, or in any other capacity, I incorporate (or have incorporated) into a Company Group product or process any development, original work of authorship, improvement, or trade secret that I created or owned prior to the commencement of my employment or in which I have an interest (collectively referred to as " Prior Developments"), I hereby grant the Company, and the Company Group shall have, a non-exclusive, royalty-free, irrevocable, perpetual, transferable worldwide license (with the right to sublicense) to make, have made, copy, modify, make derivative works of, use, sell, and otherwise distribute such Prior Development as part of or in connection with such product or process.

(b) Assignment of Developments. I agree that I will, without additional compensation, promptly make full written disclosure to the Company, and will hold in trust for the sole right and benefit of the Company all developments, original works of authorship, inventions, concepts, know-how, improvements, trade secrets, and similar proprietary rights, whether or not patentable or registrable under copyright or similar laws, which I may solely or jointly conceive or develop or reduce to practice, or have solely or jointly conceived or developed or reduced to practice, or have caused or may cause to be conceived or developed or reduced to practice, during the Assignment Period, whether or not during regular working hours, provided they either (i) relate at the time of conception, development or reduction to practice to the business of any member of the Company Group, or the actual or anticipated research or development of any member of the Company Group; (ii) result from or relate to any work performed for any member of the Company Group; or (iii) are developed through the use of equipment, supplies, or facilities of any member of the Company Group, or any Confidential Information, or in consultation with personnel of any member of the Company Group (collectively referred to as "Developments"). I further acknowledge that all Developments made by me (solely or jointly with others) within the scope of and during the Assignment Period are "works made for hire" (to the greatest extent permitted by applicable law) for which I am, in part, compensated by my salary, unless regulated otherwise by law, but that, in the event any such Development is deemed not to be a work made for hire, I hereby assign to the Company, or its designee, all my right, title, and interest throughout the world in and to any such Development.

(c) Maintenance of Records. I agree to keep and maintain adequate and current written records of all Developments made by me (solely or jointly with others) during the Assignment Period. The records may be in the form of notes, sketches, drawings, flow charts, electronic data or recordings, and any other format. The records will be available to and remain the sole property of the Company Group at all times. I agree not to remove such records from the Company's place of business except as expressly permitted by Company Group policy, which may, from time to time, be revised at the sole election of the Company Group for the purpose of furthering the business of the Company Group.

(d) Intellectual Property Rights. I agree to assist the Company, or its designee, at the Company's expense, in every way to secure the rights of the Company Group in the Developments and any copyrights, patents, trademarks, service marks, database rights, domain names, mask work rights, moral rights, and other intellectual property rights relating thereto in any and all countries, including the disclosure to the Company of all pertinent information and data with respect thereto, the execution of all applications, specifications, oaths, assignments, recordations, and all other instruments that the Company shall deem necessary in order to apply for, obtain, maintain, and transfer such rights and in order to assign and convey to the Company Group the sole and exclusive right, title, and interest in and to such Developments, and any intellectual property and other proprietary rights relating thereto. I further agree that my obligation to execute or cause to be executed, when it is in my power to do so, any such instrument or papers shall continue after the termination of the Assignment Period until the expiration of the last such intellectual property right to expire in any country of the world; *provided*, *however*, the Company shall reimburse me for my reasonable expenses incurred in connection with carrying out the foregoing obligation. If the Company is unable because of my mental or physical incapacity or unavailability for any other reason to secure my signature to apply for or to pursue any application for any United States or foreign patents or copyright registrations covering Developments or original works of authorship assigned to the Company as above, then I hereby irrevocably designate and appoint the Company and its duly authorized officers and agents as my agent and attorney in fact to act for and in my behalf and stead to execute and file any such applications or records and to do all other lawfully permitted acts to further the application for, prosecution, issuance, maintenance, and transfer of letters patent or registrations thereon with the same legal force and effect as if originally executed by me. I hereby waive and irrevocably quitclaim to the Company any and all claims, of any nature whatsoever, that I now or hereafter have for past, present, or future infringement of any and all proprietary rights assigned to the Company.

Section 3. **Returning Company Group Documents**.

I agree that, at the time of termination of my employment with the Company for any reason, I will deliver to the Company (and will not keep in my possession, recreate, or deliver to anyone else) any and all Confidential Information and all other documents, materials, information, and property developed by me pursuant to my employment or otherwise belonging to the Company. I agree further that any property situated on the Company's premises and owned by the Company (or any other member of the Company Group), including disks and other storage media, filing cabinets, and other work areas, is subject to inspection by personnel of any member of the Company Group at any time with or without notice.

Section 4. **Disclosure of Agreement**.

As long as it remains in effect, I will disclose the existence of this Non-Interference Agreement to any prospective employer, partner, co-venturer, investor, or lender prior to entering into an employment, partnership, or other business relationship with such person or entity.

Section 5. **Restrictions on Interfering**.

(a) Non-Competition. During the period of my employment with the Company (the "Employment Period") and the Post-Termination Non-Compete Period, I shall not, directly or indirectly, individually or on behalf of any person, company, enterprise, or entity, or as a sole proprietor, partner, stockholder, director, officer, principal, agent, or executive, or in any other capacity or relationship, engage in any Competitive Activities.

(b) Non-Interference. During the Employment Period and the Post-Termination Non-Interference Period, I shall not, directly or indirectly for my own account or for the account of any other individual or entity, engage in Interfering Activities; *provided*, *however*, that I shall not be deemed to violate this subsection (b) to the extent that any employee of any subsequent employer of mine, in the ordinary course of business, conducts any activity described in subsection (c)(iii)(C) below as to any Business Relation, provided that I have not directed or instructed any such employee (either personally or through another) to contact any such Business Relation.

(c) Definitions. For purposes of this Non-Interference Agreement :

(i) "Business Relation" shall mean any current or prospective client, customer, licensee, or other business relation of the Company Group, or any such relation that was a client, customer, licensee, or other business relation within the six (6) month period prior to the expiration of the Employment Period, in each case, to whom I provided services, or with whom I transacted business, or whose identity became known to me in connection with my relationship with or employment by the Company and is not publicly known.

(ii) "Competitive Activities" shall mean telecommunication services provided by a rural exchange carrier business which has substantial business operations in the state of Florida, Maine, New Hampshire, North Carolina, or Vermont.

(iii) "Interfering Activities" shall mean (A) encouraging, soliciting, or inducing, or in any manner attempting to encourage, solicit, or induce, any Person employed by, or providing consulting services to, any member of the Company Group to terminate such Person's employment or services (or in the case of a consultant, materially reducing such services) with the Company Group; (B) hiring any individual who was employed by the Company Group within the six (6) month period prior to the date of such hiring; or (C) encouraging, soliciting, or inducing, or in any manner attempting to encourage, solicit, or induce, any Business Relation to cease doing business with or reduce the amount of business conducted with the Company Group, or in any way interfering with the relationship between any such Business Relation and the Company Group.

(iv) "Person" shall mean any individual, corporation, partnership, limited liability company, joint venture, association, joint-stock company, trust (charitable or non-charitable), unincorporated organization, or other form of business entity.

(v) "Post-Termination Non-Compete Period" shall mean the period commencing on the date of the termination of the Employment Period for any reason and ending on the twelve (12) month anniversary of such date of termination.

(vi) "Post-Termination Non-Interference Period" shall mean the period commencing on the date of the termination of the Employment Period for any reason and ending on the twelve (12) month anniversary of such date of termination.

(d) Non-Disparagement. I agree that during the Employment Period, and at all times thereafter, I will not make any disparaging or defamatory comments regarding any member of the Company Group or its respective current or former directors, officers, or employees in any respect or make any comments concerning any aspect of my relationship with any member of the Company Group or any conduct or events which precipitated any termination of my employment from any member of the Company Group. However, my obligations under this subparagraph (d) shall not apply to disclosures required by applicable law, regulation, or order of a court or governmental agency.

Section 6. **Reasonableness of Restrictions**.

I acknowledge and recognize the highly competitive nature of the Company's business, that access to Confidential Information renders me special and unique within the Company's industry, and that I will have the opportunity to develop substantial relationships with existing and prospective clients, accounts, customers, consultants, contractors, investors, and strategic partners of the Company Group during the course of and as a result of my employment with the Company. In light of the foregoing, I recognize and acknowledge that the restrictions and limitations set forth in this Non-Interference Agreement are reasonable and valid in geographical and temporal scope and in all other respects and are essential to protect the value of the business and assets of the Company Group. I acknowledge further that the restrictions and limitations set forth in this Non-Interference Agreement will not materially interfere with my ability to earn a living following the termination of my employment with the Company and that my ability to earn a livelihood without violating such restrictions is a material condition to my employment with the Company.

Section 7. **Independence; Severability; Blue Pencil**.

Each of the rights enumerated in this Non-Interference Agreement shall be independent of the others and shall be in addition to and not in lieu of any other rights and remedies available to the Company Group at law or in equity. If any of the provisions of this Non-Interference Agreement or any part of any of them is hereafter construed or adjudicated to be invalid or unenforceable, the same shall not affect the remainder of this Non-Interference Agreement, which shall be given full effect without regard to the invalid portions. If any of the covenants contained herein are held to be invalid or unenforceable because of the duration of such provisions or the area or scope covered thereby, I agree that the court making such determination shall have the power to reduce the duration, scope, and/or area of such provision to the maximum and/or broadest duration, scope, and/or area permissible by law, and in its reduced form said provision shall then be enforceable.

Section 8. **Injunctive Relief**.

I expressly acknowledge that any breach or threatened breach of any of the terms and/or conditions set forth in this Non-Interference Agreement may result in irreparable injury to the members of the Company Group. Therefore, I hereby agree that, in addition to any other remedy that may be available to the Company, any member of the Company Group shall be entitled to seek injunctive relief, specific performance, or other equitable relief by a court of appropriate jurisdiction in the event of any breach or threatened breach of the terms of this Non-Interference Agreement without the necessity of proving irreparable harm or injury as a result of such breach or threatened breach. Notwithstanding any other provision to the contrary, I acknowledge and agree that the Post-Termination Non-Compete Period, or Post-Termination Non-Interference Period, as applicable, shall be tolled during any period of violation of any of the covenants in Section 5 hereof.

Section 9. **Cooperation**.

I agree that, following any termination of my employment, I will continue to provide reasonable cooperation to the Company and/or any other member of the Company Group and its or their respective counsel in connection with any investigation, administrative proceeding, or litigation relating to any matter that occurred during my employment in which I was involved or of which I have knowledge. As a condition of such cooperation, the Company shall reimburse me for reasonable out-of-pocket expenses incurred at the request of the Company with respect to my compliance with this paragraph. I also agree that, in the event that I am subpoenaed by any person or entity (including, but not limited to, any government agency) to give testimony or provide documents (in a deposition, court proceeding, or otherwise) that in any way relates to my employment by the Company and/or any other member of the Company Group, I will give prompt notice of such request to the Company and will make no disclosure until the Company and/or the other member of the Company Group has had a reasonable opportunity to contest the right of the requesting person or entity to such disclosure.

Section 10. **General Provisions**.

(a) Governing Law and Jurisdiction. THIS NON-INTERFERENCE AGREEMENT IS GOVERNED BY AND IS TO BE CONSTRUED UNDER THE LAWS OF THE STATE OF NORTH CAROLINA, WITHOUT REGARD TO CONFLICT OF LAWS RULES. ANY DISPUTE OR CLAIM ARISING OUT OF OR RELATING TO THIS NON-INTERFERENCE AGREEMENT OR CLAIM OF BREACH HEREOF SHALL BE BROUGHT EXCLUSIVELY IN FEDERAL COURT IN THE STATE OF NORTH CAROLINA.BY EXECUTION OF THE NON-INTERFERENCE AGREEMENT, THE PARTIES HERETO, AND THEIR RESPECTIVE AFFILIATES, CONSENT TO THE EXCLUSIVE JURISDICTION OF SUCH COURT, AND WAIVE ANY RIGHT TO CHALLENGE JURISDICTION OR VENUE IN SUCH COURT WITH REGARD TO ANY SUIT, ACTION, OR PROCEEDING UNDER OR IN CONNECTION WITH THE NON-INTERFERENCE AGREEMENT. EACH PARTY TO THIS NON-INTERFERENCE AGREEMENT ALSO HEREBY WAIVES ANY RIGHT TO TRIAL BY JURY IN CONNECTION WITH ANY SUIT, ACTION, OR PROCEEDING UNDER OR IN CONNECTION WITH THIS NON-INTERFERENCE AGREEMENT.

(b) Entire Agreement. This Non-Interference Agreement sets forth the entire agreement and understanding between the Company and me relating to the subject matter herein and merges all prior discussions between us. No modification or amendment to this Non-Interference Agreement, nor any waiver of any rights under this Non-Interference Agreement, will be effective unless in writing signed by the party to be charged. Any subsequent change or changes in my duties, obligations, rights, or compensation will not affect the validity or scope of this Non-Interference Agreement.

(c) No Right of Continued Employment. I acknowledge and agree that nothing contained herein shall be construed as granting me any right to continued employment by the Company, and the right of the Company to terminate my employment at any time and for any reason, with or without cause, is specifically reserved.

(d) Successors and Assigns. This Non-Interference Agreement will be binding upon my heirs, executors, administrators, and other legal representatives and will be for the benefit of the Company, its successors, and its assigns. I expressly acknowledge and agree that this Non-Interference Agreement may be assigned by the Company without my consent to any other member of the Company Group as well as any purchaser of all or substantially all of the assets or stock of the Company, whether by purchase, merger, or other similar corporate transaction, provided that the license granted pursuant to Section 2(a) may be assigned to any third party by the Company without my consent.

(e) Survival. The provisions of this Non-Interference Agreement shall survive the termination of my employment with the Company and/or the assignment of this Non-Interference Agreement by the Company to any successor in interest or other assignee.

* * *

I, Peter G. Nixon, have executed this Confidentiality, Non-Interference, and Invention Assignment Agreement on the respective date set forth below:

Date: January 22, 2013 /s/ Peter G. Nixon
(Signature)

Exhibit 10.22

EMPLOYMENT AGREEMENT

This EMPLOYMENT AGREEMENT (this "Agreement") is made and entered into as of this 15th day of November, 2012 (the "Commencement Date") by and between FairPoint Communications, Inc. (the "Company"), a Delaware corporation, and Anthony A. Tomae (the " Executive").

W I T N E S S E T H :

WHEREAS, the Company desires to employ Executive and to enter into this Agreement embodying the terms of such employment, and Executive desires to enter into this Agreement and to accept such employment, subject to the terms and provisions of this Agreement.

NOW, THEREFORE, in consideration of the promises and mutual covenants contained herein and for other good and valuable consideration, the receipt and sufficiency of which are mutually acknowledged, the Company and Executive hereby agree as follows:

Section 1. **Definitions**.

(a) "Accrued Obligations" shall mean (i) all accrued but unpaid Base Salary through the date of termination of Executive's employment, (ii) any unpaid or unreimbursed expenses incurred in accordance with Section 7 hereof, (iii) any benefits provided under the Company's employee benefit plans upon a termination of employment, in accordance with the terms contained therein, and (iv) any amounts payable under the FairPoint Communications, Inc. 2010 Long Term Incentive Plan ("LTIP"), in accordance with the terms contained therein.

(b) "Cause" shall mean (i) Executive's act(s) of gross negligence or willful misconduct in the course of Executive's employment hereunder, (ii) willful failure or refusal by Executive to perform in any material respect his duties or responsibilities, (iii) misappropriation (or attempted misappropriation) by Executive of any assets or business opportunities of the Company or any other member of the Company Group, (iv) embezzlement or fraud committed (or attempted) by Executive, or at his direction, (v) Executive's conviction of, indictment for, or pleading "guilty" or " no contest" to, (x) a felony or (y) any other criminal charge that has, or could be reasonably expected to have, an adverse impact on the performance of Executive's duties to the Company or any other member of the Company Group or otherwise result in material injury to the reputation or business of the Company or any other member of the Company Group, (vi) any material violation by Executive of the policies of the Company, including but not limited to those relating to sexual harassment or business conduct, and those otherwise set forth in the manuals or statements of policy of the Company, which violation has a material adverse effect on the Company, or (vii) Executive's material breach of this Agreement or material breach of the Non-Interference Agreement.

(c) "Change in Control" shall have the same meaning as defined in the LTIP, as in effect on the date hereof; provided, however, that there shall be no provision for any threatened or anticipated Change in Control that does not actually occur.

(d) "Disability" shall mean any physical or mental disability or infirmity of Executive that prevents the performance of Executive's duties for a period of (i) ninety (90) consecutive days or (ii) one hundred twenty (120) non-consecutive days during any twelve (12) month period. Any question as to the existence, extent, or potentiality of Executive's Disability upon which Executive and the Company cannot agree shall be determined by a qualified, independent physician selected by the Company and approved by Executive (which approval shall not be unreasonably withheld). The determination of any such physician shall be final and conclusive for all purposes of this Agreement.

(e) "Good Reason" shall mean, without Executive's consent, (i) a material reduction in Base Salary set forth in Section 4(a) hereof or Annual Bonus opportunity referred to in Section 4(b) hereof or (ii) any other material breach of a provision of this Agreement by the Company (other than a provision that is covered by clause (i) above). Executive acknowledges and agrees that his exclusive remedy in the event of any breach of this Agreement shall be to assert Good Reason pursuant to the terms and conditions of Section 8(e) hereof. Notwithstanding the foregoing, during the Term of Employment, in the event that the Board reasonably believes that Executive may have engaged in conduct that could constitute Cause hereunder, the Board may, in its sole and absolute discretion, suspend Executive from performing his duties hereunder, and in no event shall any such suspension constitute an event pursuant to which Executive may terminate employment with Good Reason or otherwise constitute a breach hereunder; *provided*, that no such suspension shall alter the Company's obligations under this Agreement during such period of suspension.

(f) "Person" shall mean any individual, corporation, partnership, limited liability company, joint venture, association, joint -stock company, trust (charitable or non-charitable), unincorporated organization, or other form of business entity.

Section 2. **Acceptance and Term of Employment**.

The Company agrees to employ Executive, and Executive agrees to serve the Company, on the terms and conditions set forth herein. The term of employment (the "Term of Employment") shall commence on the Commencement Date and shall continue during the period ending on the close of business of the three (3) year anniversary of the Commencement Date, unless terminated sooner as provided in Section 8 or unless the Company has provided Executive with notice of its intention to renew the Term of Employment for a specific period of time, such notice to be given not less than one hundred twenty (120) days prior to the expiration of the three (3) year anniversary of the Commencement Date. Following the three year Term of Employment (or the applicable extension term, if any), the Executive shall continue on an at will basis until such time as the Company provides to Executive a written notice of termination pursuant to the provisions of Section 18 hereof.

Section 3. **Position, Duties, and Responsibilities; Place of Performance.**

(a) Position, Duties and Responsibilities. During the Term of Employment, Executive shall be employed and serve as Executive Vice President and Chief Revenue Officer of the Company (with such title subject to change from time to time as determined by the Board of Directors of the Company (the "Board") together with such other position or positions consistent with Executive's title as the Chief Executive Officer of the Company (the "CEO") shall specify from time to time), and shall have such duties and responsibilities commensurate with such title. Executive also agrees to serve, at the request of the CEO, as an officer of any other direct or indirect subsidiary of the Company (each such subsidiary being, together with the Company, a member of the "Company Group"), in each case without additional compensation.

(b) Performance. Executive shall devote his full business time, attention, skill, and best efforts to the performance of his duties under this Agreement and shall not engage in any other business or occupation during the Term of Employment, including, without limitation, any activity that (x) conflicts with the interests of the Company or any other member of the Company Group, (y) interferes with the proper and efficient performance of Executive's duties for the Company, or (z) interferes with Executive's exercise of judgment in the Company's best interests. Notwithstanding the foregoing, nothing herein shall preclude Executive from (i) serving, with the prior written consent of the CEO, as a member of the boards of directors or advisory boards (or their equivalents in the case of a non-corporate entity) of non-competing businesses and charitable organizations, (ii) engaging in charitable activities and community affairs, and (iii) managing personal investments and affairs; *provided*, *however*, that the activities set out in clauses (i), (ii) and (iii) shall be limited by Executive so as not to interfere, individually or in the aggregate, with the performance of his duties and responsibilities hereunder.

Section 4. **Compensation**.

During the Term of Employment, Executive shall be entitled to the following compensation:

(a) Base Salary. Executive shall be paid an annualized base salary (the "Base Salary"), payable in accordance with the regular payroll practices of the Company, of not less than Three Hundred Twenty Thousand Dollars ($320,000), with increases, if any, as may be approved in writing by the Compensation Committee of the Board of Directors (the "Compensation Committee").

(b) Annual Bonus. Executive shall be eligible for an annual incentive bonus award (the "Annual Bonus") through participation in the Company's Annual Incentive Plan in respect of each fiscal year during the Term of Employment, with the actual Annual Bonus payable being based upon the level of achievement of annual Company and individual performance objectives for such fiscal year, as determined by the Compensation Committee and communicated to Executive. The Annual Bonus shall be paid to Executive at the same time as annual bonuses are generally payable to other senior executives of the Company subject to Executive's continuous employment through the payment date.

(c) Other Plans. Executive shall be eligible for consideration by the Compensation Committee to participate in the benefit and other plans made available generally to senior executives of the Company, including but not limited to the LTIP, subject to the terms and conditions as may be established from time to time by the Compensation Committee and communicated to Executive. Upon the occurrence of a Change in Control, all of Executive's unvested benefits under the LTIP shall be accelerated and shall vest in full.

(d) Indemnification. The Company shall indemnify Executive and hold Executive harmless in connection with the defense of any lawsuit or other claim to which he is made a party by reason of being an officer or employee of the Company, to the fullest extent permitted by the laws of the State of Delaware, as in effect at the time of the subject act or omission; *provided* that any settlement, consent to judgment, or similar action taken by Executive without the prior written consent of the Company in respect of any such lawsuit or other claim shall not be subject to indemnification hereunder.

Section 5. **Employee Benefits**.

During the Term of Employment, Executive shall be entitled to participate in health, insurance, retirement, and other benefits provided generally to similarly situated employees of the Company. Executive shall also be entitled to the same number of holidays, vacation days, and sick days, as well as any other benefits, in each case as are generally allowed to similarly situated employees of the Company in accordance with the Company policy as in effect from time to time. Nothing contained herein shall be construed to limit the Company's ability to amend, suspend, or terminate any employee benefit plan or policy at any time without providing Executive notice, and the right to do so is expressly reserved.

Section 6. **Key-Man Insurance**.

At any time during the Term of Employment, the Company shall have the right to insure the life of Executive for the sole benefit of the Company, in such amounts, and with such terms, as it may determine. All premiums payable thereon shall be the obligation of the Company. Executive shall have no interest in any such policy, but agrees to cooperate with the Company in procuring such insurance by submitting to physical examinations, supplying all information required by the insurance company, and executing all necessary documents, provided that no financial obligation is imposed on Executive by any such documents.

Section 7. **Reimbursement of Business Expenses**.

Executive is authorized to incur reasonable business expenses in carrying out his duties and responsibilities under this Agreement, and the Company shall promptly reimburse him for all such reasonable business expenses, subject to documentation in accordance with the Company's policy, as in effect from time to time.

Section 8. **Termination of Employment.**

(a) General. The Term of Employment shall terminate upon the earliest to occur of (i) Executive's death, (ii) a termination by reason of a Disability, (iii) a termination by the Company with or without Cause, (iv) a termination by Executive with or without Good Reason, and (v) delivery by the Company to Executive of a termination notice at any time subsequent to the close of business on the last day of the Term of Employment. Upon any termination of Executive's employment for any reason, except as may otherwise be requested by the Company in writing and agreed upon in writing by Executive, Executive shall resign from any and all directorships, committee memberships, and any other positions Executive holds with the Company or any other member of the Company Group. Notwithstanding anything herein to the contrary, the payment (or commencement of a series of payments) hereunder of any nonqualified deferred compensation (within the meaning of Section 409A of the Internal Revenue Code of 1986, as amended, and the rules and regulations promulgated thereunder (the “Code”)) upon a termination of employment shall be delayed until such time as Executive has also undergone a “separation from service” as defined in Treas. Reg. 1.409A-1(h), at which time such nonqualified deferred compensation (calculated as of the date of Executive's termination of employment hereunder) shall be paid (or commence to be paid) to Executive on the schedule set forth in this Section 8 as if Executive had undergone such termination of employment (under the same circumstances) on the date of his ultimate “separation from service.”

(b) Termination Due to Death or Disability. Executive's employment shall terminate automatically upon his death. The Company may terminate Executive's employment immediately upon the occurrence of a Disability, such termination to be effective upon Executive's receipt of written notice of such termination. Upon Executive's death or in the event that Executive's employment is terminated due to his Disability, Executive or his estate or his beneficiaries, as the case may be, shall be entitled to:

(i) The Accrued Obligations;

(ii) Any unpaid Annual Bonus in respect of any completed fiscal year that has ended prior to the date of such termination, which amount shall be paid at such time annual bonuses are paid to other senior executives of the Company, but in no event later than the date that is 2½ months following the last day of the fiscal year in which such termination occurred.

Following Executive's death or a termination of Executive's employment by reason of a Disability, except as set forth in this Section 8(b), Executive shall have no further rights to any compensation or any other benefits under this Agreement.

(c) Termination by the Company with Cause.

(i) The Company may terminate Executive's employment at any time with Cause, effective upon Executive's receipt of written notice of such termination; *provided*, *however*, that with respect to any Cause termination relying on clause (ii) of the definition of Cause set forth in Section 1(b) hereof, to the extent that such act or acts or failure or failures to act are curable, Executive shall be given not less than ten (10) days' written notice by the Board of its intention to terminate him with Cause, such notice to state in detail the particular act or acts or failure or failures to act that constitute the grounds on which the proposed termination with Cause is based, and such termination shall be effective at the expiration of such ten (10) day notice period unless Executive has fully cured such act or acts or failure or failures to act that give rise to Cause during such period.

(ii) In the event that the Company terminates Executive's employment with Cause, he shall be entitled only to the Accrued Obligations. Following such termination of Executive's employment with Cause, except as set forth in this Section 8(c)(ii), Executive shall have no further rights to any compensation or any other benefits under this Agreement.

(d) Termination by the Company without Cause or upon Delivery of a Termination Notice from the Company to the Executive . The Company may terminate Executive's employment at any time without Cause, effective upon Executive's receipt of written notice of such termination, or by delivery to Executive of a written notice of termination in accordance with the provisions of Section 2 above.

(i) In the event that Executive's employment is terminated by the Company without Cause (other than due to death or Disability) or upon the Company's delivery of a termination notice, in either case prior to the expiration of the Term of Employment (for example, the termination must be effected or the termination notice must be delivered to Executive prior to the expiration of three (3) years from the Commencement Date), Executive shall be entitled to:

(A) The Accrued Obligations, paid as soon as practicable following Executive's termination of employment, but in no event later than the date that is 2½ months following the last day of the fiscal year in which such termination occurred;

(B) Any unpaid Annual Bonus in respect of any completed fiscal year that has ended prior to the date of such termination, which amount shall be paid at such time annual bonuses are paid to other senior executives of the Company, but in no event later than the date that is 2½ months following the last day of the fiscal year in which such termination occurred;

(C) An amount equal to the sum of:

(x) two (2) times the amount of Executive's then-current Base Salary, paid as soon as practicable following Executive's termination of employment, but in no event later than the date that is 2½ months following the last day of the fiscal year in which such termination occurred;

(y) two (2) times the amount of Executive's average Annual Bonus where such average is determined by reference to the actual Annual Bonus paid to Executive for the immediately two (2) preceding fiscal years, paid as soon as practicable following Executive's termination of employment, but in no event later than the date that is 2½ months following the last day of the fiscal year in which such termination occurred;

(z) the cost of continued health and disability insurance coverage for Executive and his covered dependents during the twenty four (24) months following such termination, based on the monthly cost of continuation coverage under COBRA as of the date of termination, as applicable, under the applicable Company benefit plans, such amounts to be paid in accordance with the Company's regular payroll practices; and

(D) if any such termination is within six (6) months before or six (6) months after a Change in Control, the amount payable under Section 8(d)(i)(C)(y) shall be adjusted to the greater of (A) the amount payable under Section 8(d)(i)(C)(y), or (B) two (2) times the amount of Executive's target Annual Bonus for the current fiscal year. To the extent that the amount payable under this Section 8(d)(i)(D) is greater than the amount payable under Section 8(d)(i)(C), the deficiency shall be paid at the effective time of the occurrence of a Change in Control.

(ii) In the event that Executive's employment is terminated by the Company without Cause (other than due to death or Disability) or upon the Company's delivery of a termination notice, in either case after the expiration of the Term of Employment (for example, the termination is effected or the termination notice is delivered to Executive subsequent to the expiration of three (3) years from the Commencement Date, herein an "At Will Termination"), Executive shall be entitled to the Accrued Obligations only; provided, however, if the At Will Termination is effected within six (6) months prior to a Change in Control, Executive shall be entitled to each of the payments and benefits described in clauses (B), (C) and (D) above.

Notwithstanding the foregoing, the payments and benefits described in clauses (B), (C) and (D) above shall immediately terminate, and the Company shall have no further obligations to Executive with respect thereto, in the event that Executive breaches any provision of the Non-Interference Agreement.

Following such termination of Executive's employment by the Company without Cause or upon the Company's delivery to Executive of a termination notice, except as set forth in this Section 8(d), Executive shall have no further rights to any compensation or any other benefits under this Agreement.

For the avoidance of doubt, Executive's sole and exclusive remedy upon a termination of employment by the Company without Cause or upon the expiration of the Term of Employment, in either case following the Company's delivery to Executive of a termination notice which termination is effected or where the termination notice is delivered prior to the expiration of the date that is three (3) years subsequent to the Commencement Date, shall be receipt of the Severance Benefits and the Accrued Obligations.

(e) Termination by Executive with Good Reason. Executive may terminate his employment with Good Reason by providing the Company thirty (30) days' written notice setting forth in reasonable specificity the event that constitutes Good Reason, which written notice, to be effective, must be provided to the Company within sixty (60) days of the initial occurrence of such event. During such thirty (30) day notice period, the Company shall have a cure right (if curable), and if not cured within such period, Executive's termination will be effective upon the expiration of such cure period. Executive shall be entitled to the same payments and benefits as provided in Section 8(d) hereof for a termination by the Company without Cause, subject to the same conditions on payment and benefits as described in Section 8(d) hereof; provided, however, that Executive shall also be entitled to accelerated vesting of the next tranche of benefits payable under the LTIP. Following such termination of Executive's employment by Executive with Good Reason, except as set forth in this Section 8(e), Executive shall have no further rights to any compensation or any other benefits under this Agreement. For the avoidance of doubt, Executive's sole and exclusive remedy upon a termination of employment with Good Reason shall be receipt of the amounts as set forth in this Section 8(e).

(f) Termination by Executive without Good Reason or upon Delivery by Executive to Company of a Termination Notice. Executive may terminate his employment without Good Reason by providing the Company thirty (30) days' written notice of such termination or by delivery of a written termination notice in accordance with the provisions of Section 2 above. In the event of a termination of employment by Executive under this Section 8(f), Executive shall be entitled only to the Accrued Obligations. In the event of termination of Executive's employment without Good Reason, the Company may, in its sole and absolute discretion, by written notice accelerate such date of termination without changing the characterization of such termination as a termination by Executive without Good Reason. Following such termination of Executive's employment by Executive without Good Reason or upon Executive's delivery to Company of a termination notice, except as set forth in this Section 8(f), Executive shall have no further rights to any compensation or any other benefits under this Agreement.

(g) Release. Notwithstanding any provision herein to the contrary, the payment of any amount or provision of any benefit pursuant to subsection (b), (d), or (e) of this Section 8 (other than the Accrued Obligations) (collectively, the "Severance Benefits") shall be conditioned upon Executive's execution, delivery to the Company, and non-revocation of a release of claims (under a release of claims form, the form and content of which are acceptable to the Company, and the expiration of any revocation period contained in such release of claims) within sixty (60) days following the date of Executive's termination of employment hereunder. If Executive fails to execute the release of claims in such a timely manner so as to permit any revocation period to expire prior to the end of such sixty (60) day period, or timely revokes his acceptance of such release following its execution, Executive shall not be entitled to any of the Severance Benefits. Further, to the extent that any of the Severance Benefits constitutes "nonqualified deferred compensation" for purposes of Section 409A of the Code, any payment of any amount or provision of any benefit otherwise scheduled to occur prior to the sixtieth (60^{th}) day following the date of Executive's termination of employment hereunder, but for the condition on executing the release of claims as set forth herein, shall not be made until the first regularly scheduled payroll date following such sixtieth (60^{th}) day, after which any remaining Severance Benefits shall thereafter be provided to Executive according to the applicable schedule set forth herein. For the avoidance of doubt, in the event of a termination due to Executive's death or Disability, Executive's obligations herein to execute and not revoke the release of claims may be satisfied on his behalf by his estate or a person having legal power of attorney over his affairs.

Section 9. **Non-Interference Agreement**.

As a condition to receipt of the benefits set forth under this Agreement, to which Executive acknowledges are incremental to the benefits and compensation available to Executive immediately prior to the Commencement Date, Executive shall have executed and delivered to the Company a non-interference agreement (the "Non-Interference Agreement") in the form of the Confidentiality, Non-Interference and Invention Assignment Agreement attached hereto as Exhibit A. The parties hereto acknowledge and agree that this Agreement and the Non-Interference Agreement shall be considered separate contracts.

Section 10. **Representations and Warranties of Executive**.

Executive represents and warrants to the Company that:

(a) Executive is entering into this Agreement voluntarily and that his employment hereunder and compliance with the terms and conditions hereof will not conflict with or result in the breach by him of any agreement to which he is a party or by which he may be bound;

(b) Executive has not violated, and in connection with his employment with the Company will not violate, any non-solicitation, non-competition, or other similar covenant or agreement of a prior employer by which he is or may be bound; and

(c) in connection with his employment with the Company, Executive will not use any confidential or proprietary information he may have obtained in connection with employment with any prior employer.

Section 11. **Taxes**.

The Company may withhold from any payments made under this Agreement all applicable taxes, including but not limited to income, employment, and social insurance taxes, as shall be required by law. Executive acknowledges and represents that the Company has not provided any tax advice to him in connection with this Agreement and that he has been advised by the Company to seek tax advice from his own tax advisors regarding this Agreement and payments that may be made to him pursuant to this Agreement, including specifically, the application of the provisions of Section 409A of the Code to such payments.

Section 12. **Mitigation; Company Recovery Rights**.

Executive shall not be required to mitigate the amount of any payment provided pursuant to this Agreement by seeking other employment or otherwise, and the amount of any payment provided for pursuant to this Agreement shall not be reduced by any compensation earned as a result of Executive's other employment or otherwise. Any payment pursuant to this Agreement shall, however, be subject to any rights the Company may have under Section 304(b) of the Sarbanes-Oxley Act of 2002 or Section 954 of the Dodd-Frank Wall Street Reform and Consumer Protection Act.

Section 13. **Additional Section 409A Provisions**.

Notwithstanding any provision in this Agreement to the contrary:

(a) Any payment otherwise required to be made hereunder to Executive at any date as a result of the termination of Executive's employment shall be delayed for such period of time as may be necessary to meet the requirements of Section 409A(a)(2)(B)(i) of the Code (the "Delay Period"). On the first business day following the expiration of the Delay Period, Executive shall be paid, in a single cash lump sum, an amount equal to the aggregate amount of all payments delayed pursuant to the preceding sentence, and any remaining payments not so delayed shall continue to be paid pursuant to the payment schedule set forth herein.

(b) Each payment in a series of payments hereunder shall be deemed to be a separate payment for purposes of Section 409A of the Code.

(c) To the extent that any right to reimbursement of expenses or payment of any benefit in-kind under this Agreement constitutes nonqualified deferred compensation (within the meaning of Section 409A of the Code), (i) any such expense reimbursement shall be made by the Company no later than the last day of the taxable year following the taxable year in which such expense was incurred by Executive, (ii) the right to reimbursement or in-kind benefits shall not be subject to liquidation or exchange for another benefit, and (iii) the amount of expenses eligible for reimbursement or in-kind benefits provided during any taxable year shall not affect the expenses eligible for reimbursement or in-kind benefits to be provided in any other taxable year; *provided*, that the foregoing clause shall not be violated with regard to expenses reimbursed under any arrangement covered by Section 105(b) of the Code solely because such expenses are subject to a limit related to the period the arrangement is in effect.

(d) While the payments and benefits provided hereunder are intended to be structured in a manner to avoid the implication of any penalty taxes under Section 409A of the Code, in no event whatsoever shall the Company or any member of the Company Group be liable for any additional tax, interest, or penalties that may be imposed on Executive as a result of Section 409A of the Code or any damages for failing to comply with Section 409A of the Code (other than for withholding obligations or other obligations applicable to employers, if any, under Section 409A of the Code).

Section 14. **Successors and Assigns; No Third-Party Beneficiaries** .

(a) The Company. This Agreement shall inure to the benefit of the Company and its respective successors and assigns. Neither this Agreement nor any of the rights, obligations, or interests arising hereunder may be assigned by the Company to a Person (other than another member of the Company Group, or its or their respective successors) without Executive's prior written consent (which shall not be unreasonably withheld, delayed, or conditioned); *provided*, *however*, that in the event of a sale of all or substantially all of the assets of the Company, the Company may provide that this Agreement will be assigned to, and assumed by, the acquiror of such assets, it being agreed that in such circumstances, Executive's consent will not be required in connection therewith.

(b) Executive. Executive's rights and obligations under this Agreement shall not be transferable by Executive by assignment or otherwise, without the prior written consent of the Company; *provided*, *however*, upon Executive's death, all amounts then payable to Executive hereunder shall be paid in accordance with the terms of this Agreement to Executive's devisee, legatee, or other designee, or if there be no such designee, to Executive's estate.

(c) No Third-Party Beneficiaries. Except as otherwise set forth in Section 8(b) or Section 14(b) hereof, nothing expressed or referred to in this Agreement will be construed to give any Person other than the Company, the other members of the Company Group, and Executive any legal or equitable right, remedy, or claim under or with respect to this Agreement or any provision of this Agreement.

Section 15. **Waiver and Amendments**.

Any waiver, alteration, amendment, or modification of any of the terms of this Agreement shall be valid only if made in writing and signed by each of the parties hereto; *provided*, *however*, that any such waiver, alteration, amendment, or modification must be consented to on the Company's behalf by the Board. No waiver by either of the parties hereto of their rights hereunder shall be deemed to constitute a waiver with respect to any subsequent occurrences or transactions hereunder unless such waiver specifically states that it is to be construed as a continuing waiver.

Section 16. **Severability.**

If any covenants or such other provisions of this Agreement are found to be invalid or unenforceable by a final determination of a court of competent jurisdiction, (a) the remaining terms and provisions hereof shall be unimpaired, and (b) the invalid or unenforceable term or provision hereof shall be deemed replaced by a term or provision that is valid and enforceable and that comes closest to expressing the intention of the invalid or unenforceable term or provision hereof.

Section 17. **Governing Law and Jurisdiction.**

THIS AGREEMENT IS GOVERNED BY AND IS TO BE CONSTRUED UNDER THE LAWS OF THE STATE OF NORTH CAROLINA, WITHOUT REGARD TO CONFLICT OF LAWS RULES. ANY DISPUTE OR CLAIM ARISING OUT OF OR RELATING TO THIS AGREEMENT OR CLAIM OF BREACH HEREOF SHALL BE BROUGHT EXCLUSIVELY IN FEDERAL COURT IN THE STATE OF NORTH CAROLINA. BY EXECUTION OF THE AGREEMENT, THE PARTIES

HERETO, AND THEIR RESPECTIVE AFFILIATES, CONSENT TO THE EXCLUSIVE JURISDICTION OF SUCH COURT, AND WAIVE ANY RIGHT TO CHALLENGE JURISDICTION OR VENUE IN SUCH COURT WITH REGARD TO ANY SUIT, ACTION, OR PROCEEDING UNDER OR IN CONNECTION WITH THE AGREEMENT. EACH PARTY TO THIS AGREEMENT ALSO HEREBY WAIVES ANY RIGHT TO TRIAL BY JURY IN CONNECTION WITH ANY SUIT, ACTION, OR PROCEEDING UNDER OR IN CONNECTION WITH THIS AGREEMENT.

Section 18. **Notices.**

(a) Place of Delivery. Every notice or other communication relating to this Agreement shall be in writing, and shall be mailed to or delivered to the party for whom or which it is intended at such address as may from time to time be designated by it in a notice mailed or delivered to the other party as herein provided; *provided*, that unless and until some other address be so designated, all notices and communications by Executive to the Company shall be mailed or delivered to the Company at its principal executive office, Attention: General Counsel, and all notices and communications by the Company to Executive may be given to Executive personally or may be mailed to Executive at Executive's last known address, as reflected in the Company's records.

(b) Date of Delivery. Any notice so addressed shall be deemed to be given (i) if delivered by hand, on the date of such delivery, (ii) if mailed by courier or by overnight mail, on the first business day following the date of such mailing, and (iii) if mailed by registered or certified mail, on the third business day after the date of such mailing.

Section 19. **Section Headings.**

The headings of the sections and subsections of this Agreement are inserted for convenience only and shall not be deemed to constitute a part thereof or affect the meaning or interpretation of this Agreement or of any term or provision hereof.

Section 20. **Entire Agreement.**

This Agreement, together with any exhibits attached hereto, constitutes the entire understanding and agreement of the parties hereto regarding the employment of Executive. This Agreement supersedes all prior negotiations, discussions, correspondence, communications, understandings, and agreements (including Exhibit A to Executive's offer letter dated April 11, 2012) between the parties relating to the subject matter of this Agreement.

Section 21. **Survival of Operative Sections.**

Upon any termination of Executive's employment, the provisions of Section 8 through Section 22 of this Agreement (together with any related definitions set forth in Section 1 hereof) shall survive to the extent necessary to give effect to the provisions thereof.

Section 22. **Counterparts.**

This Agreement may be executed in two or more counterparts, each of which shall be deemed to be an original but all of which together shall constitute one and the same instrument. The execution of this Agreement may be by actual or facsimile signature.

* * *

[Signatures to appear on the following page.]

IN WITNESS WHEREOF, the undersigned have executed this Agreement as of the date first above written.

FAIRPOINT COMMUNICATIONS, INC.

/s/ Paul H. Sunu
By: Paul H. Sunu
Title: Chief Executive Officer

EXECUTIVE

/s/ Anthony A. Tomae
Anthony A. Tomae

CONFIDENTIALITY, NON-INTERFERENCE, AND INVENTION ASSIGNMENT AGREEMENT

In consideration of FairPoint Communications, Inc., a Delaware corporation (the " Company"), providing me with an employment agreement of even date herewith, and my receipt of the compensation now and hereafter paid to me by the Company, including the additional benefits and compensation provided to me under my employment agreement, I agree to the following:

Section 1. **Confidential Information.**

(a) Company Group Information. I acknowledge that, during the course of my employment, I will have access to information about the Company and its direct and indirect subsidiaries and affiliates (collectively, the " Company Group") and that my employment with the Company shall bring me into close contact with confidential and proprietary information of the Company Group. In recognition of the foregoing, I agree, at all times during the term of my employment with the Company and for the three (3) year period following my termination of my employment for any reason, to hold in confidence, and not to use, except for the benefit of the Company Group, or to disclose to any person, firm, corporation, or other entity without written authorization of the Company, any Confidential Information that I obtain or create. I understand that "Confidential Information" means information that the Company Group has developed, acquired, created, compiled, discovered, or owned or will develop, acquire, create, compile, discover, or own, that has value in or to the business of the Company Group that is not generally known and that the Company wishes to maintain as confidential. I understand that Confidential Information includes, but is not limited to, any and all non-public information that relates to the actual or anticipated business and/or products, research, or development of the Company, or to the Company's technical data, trade secrets, or know-how, including, but not limited to, research, product plans, or other information regarding the Company's products or services and markets, customer lists, and customers (including, but not limited to, customers of the Company on whom I called or with whom I may become acquainted during the term of my employment), software, developments, inventions, processes, formulas, technology, designs, drawings, engineering, hardware configuration information, marketing, finances, and other business information disclosed by the Company either directly or indirectly in writing, orally, or by drawings or inspection of premises, parts, equipment, or other Company property. Notwithstanding the foregoing, Confidential Information shall not include (i) any of the foregoing items that have become publicly known through no unauthorized disclosure by me or others who were under confidentiality obligations as to the item or items involved, (ii) any information that I am required to disclose to, or by, any governmental or judicial authority, (iii) any information known to me prior to my employment with the Company, other than information acquired in preparation for my service to the Company, or (iv) any information developed independently by me that does not relate to the business of the Company Group; *provided*, *however*, that in the event of such requirement to disclose I will give the Company prompt written notice thereof so that the Company Group may seek an appropriate protective order and/or waive in writing compliance with the confidentiality provisions of this Confidentiality, Non-Interference, and Invention Assignment Agreement (the "Non-Interference Agreement").

(b) Former Employer Information. I represent that my performance of all of the terms of this Non-Interference Agreement as an employee of the Company has not breached and will not breach any agreement to keep in confidence proprietary information, knowledge, or data acquired by me in confidence or trust prior or subsequent to the commencement of my employment with the Company, and I will not disclose to any member of the Company Group, or induce any member of the Company Group to use, any developments, or confidential or proprietary information or material I may have obtained in connection with employment with any prior employer in violation of a confidentiality agreement, nondisclosure agreement, or similar agreement with such prior employer.

Section 2. **Developments**.

(a) Developments Retained and Licensed. If, during any period during which I perform or performed services for the Company Group (the "Assignment Period"), whether as an officer, employee, director, independent contractor, consultant, or agent, or in any other capacity, I incorporate (or have incorporated) into a Company Group product or process any development, original work of authorship, improvement, or trade secret that I created or owned prior to the commencement of my employment or in which I have an interest (collectively referred to as " Prior Developments"), I hereby grant the Company, and the Company Group shall have, a non-exclusive, royalty-free, irrevocable, perpetual, transferable worldwide license (with the right to sublicense) to make, have made, copy, modify, make derivative works of, use, sell, and otherwise distribute such Prior Development as part of or in connection with such product or process.

(b) Assignment of Developments. I agree that I will, without additional compensation, promptly make full written disclosure to the Company, and will hold in trust for the sole right and benefit of the Company all developments, original works of authorship, inventions, concepts, know-how, improvements, trade secrets, and similar proprietary rights, whether or not patentable or registrable under copyright or similar laws, which I may solely or jointly conceive or develop or reduce to practice, or have solely or jointly conceived or developed or reduced to practice, or have caused or may cause to be conceived or

developed or reduced to practice, during the Assignment Period, whether or not during regular working hours, provided they either (i) relate at the time of conception, development or reduction to practice to the business of any member of the Company Group, or the actual or anticipated research or development of any member of the Company Group; (ii) result from or relate to any work performed for any member of the Company Group; or (iii) are developed through the use of equipment, supplies, or facilities of any member of the Company Group, or any Confidential Information, or in consultation with personnel of any member of the Company Group (collectively referred to as "Developments"). I further acknowledge that all Developments made by me (solely or jointly with others) within the scope of and during the Assignment Period are "works made for hire" (to the greatest extent permitted by applicable law) for which I am, in part, compensated by my salary, unless regulated otherwise by law, but that, in the event any such Development is deemed not to be a work made for hire, I hereby assign to the Company, or its designee, all my right, title, and interest throughout the world in and to any such Development.

(c) Maintenance of Records. I agree to keep and maintain adequate and current written records of all Developments made by me (solely or jointly with others) during the Assignment Period. The records may be in the form of notes, sketches, drawings, flow charts, electronic data or recordings, and any other format. The records will be available to and remain the sole property of the Company Group at all times. I agree not to remove such records from the Company's place of business except as expressly permitted by Company Group policy, which may, from time to time, be revised at the sole election of the Company Group for the purpose of furthering the business of the Company Group.

(d) Intellectual Property Rights. I agree to assist the Company, or its designee, at the Company's expense, in every way to secure the rights of the Company Group in the Developments and any copyrights, patents, trademarks, service marks, database rights, domain names, mask work rights, moral rights, and other intellectual property rights relating thereto in any and all countries, including the disclosure to the Company of all pertinent information and data with respect thereto, the execution of all applications, specifications, oaths, assignments, recordations, and all other instruments that the Company shall deem necessary in order to apply for, obtain, maintain, and transfer such rights and in order to assign and convey to the Company Group the sole and exclusive right, title, and interest in and to such Developments, and any intellectual property and other proprietary rights relating thereto. I further agree that my obligation to execute or cause to be executed, when it is in my power to do so, any such instrument or papers shall continue after the termination of the Assignment Period until the expiration of the last such intellectual property right to expire in any country of the world; *provided*, *however*, the Company shall reimburse me for my reasonable expenses incurred in connection with carrying out the foregoing obligation. If the Company is unable because of my mental or physical incapacity or unavailability for any other reason to secure my signature to apply for or to pursue any application for any United States or foreign patents or copyright registrations covering Developments or original works of authorship assigned to the Company as above, then I hereby irrevocably designate and appoint the Company and its duly authorized officers and agents as my agent and attorney in fact to act for and in my behalf and stead to execute and file any such applications or records and to do all other lawfully permitted acts to further the application for, prosecution, issuance, maintenance, and transfer of letters patent or registrations thereon with the same legal force and effect as if originally executed by me. I hereby waive and irrevocably quitclaim to the Company any and all claims, of any nature whatsoever, that I now or hereafter have for past, present, or future infringement of any and all proprietary rights assigned to the Company.

Section 3. **Returning Company Group Documents**.

I agree that, at the time of termination of my employment with the Company for any reason, I will deliver to the Company (and will not keep in my possession, recreate, or deliver to anyone else) any and all Confidential Information and all other documents, materials, information, and property developed by me pursuant to my employment or otherwise belonging to the Company. I agree further that any property situated on the Company's premises and owned by the Company (or any other member of the Company Group), including disks and other storage media, filing cabinets, and other work areas, is subject to inspection by personnel of any member of the Company Group at any time with or without notice.

Section 4. **Disclosure of Agreement**.

As long as it remains in effect, I will disclose the existence of this Non-Interference Agreement to any prospective employer, partner, co-venturer, investor, or lender prior to entering into an employment, partnership, or other business relationship with such person or entity.

Section 5. **Restrictions on Interfering**.

(a) Non-Competition. During the period of my employment with the Company (the "Employment Period") and the Post-Termination Non-Compete Period, I shall not, directly or indirectly, individually or on behalf of any person, company, enterprise, or entity, or as a sole proprietor, partner, stockholder, director, officer, principal, agent, or executive, or in any other capacity or relationship, engage in any Competitive Activities.

(b) Non-Interference. During the Employment Period and the Post-Termination Non-Interference Period, I shall not, directly or indirectly for my own account or for the account of any other individual or entity, engage in Interfering Activities; *provided*, *however*, that I shall not be deemed to violate this subsection (b) to the extent that any employee of any subsequent employer of mine, in the ordinary course of business, conducts any activity described in subsection (c)(iii)(C) below as to any Business Relation, provided that I have not directed or instructed any such employee (either personally or through another) to contact any such Business Relation.

(c) Definitions. For purposes of this Non-Interference Agreement :

(i) "Business Relation" shall mean any current or prospective client, customer, licensee, or other business relation of the Company Group, or any such relation that was a client, customer, licensee, or other business relation within the six (6) month period prior to the expiration of the Employment Period, in each case, to whom I provided services, or with whom I transacted business, or whose identity became known to me in connection with my relationship with or employment by the Company and is not publicly known.

(ii) "Competitive Activities" shall mean telecommunication services provided by a rural exchange carrier business which has substantial business operations in the state of Florida, Maine, New Hampshire, North Carolina, or Vermont.

(iii) "Interfering Activities" shall mean (A) encouraging, soliciting, or inducing, or in any manner attempting to encourage, solicit, or induce, any Person employed by, or providing consulting services to, any member of the Company Group to terminate such Person's employment or services (or in the case of a consultant, materially reducing such services) with the Company Group; (B) hiring any individual who was employed by the Company Group within the six (6) month period prior to the date of such hiring; or (C) encouraging, soliciting, or inducing, or in any manner attempting to encourage, solicit, or induce, any Business Relation to cease doing business with or reduce the amount of business conducted with the Company Group, or in any way interfering with the relationship between any such Business Relation and the Company Group.

(iv) "Person" shall mean any individual, corporation, partnership, limited liability company, joint venture, association, joint-stock company, trust (charitable or non-charitable), unincorporated organization, or other form of business entity.

(v) "Post-Termination Non-Compete Period" shall mean the period commencing on the date of the termination of the Employment Period for any reason and ending on the twelve (12) month anniversary of such date of termination.

(vi) "Post-Termination Non-Interference Period" shall mean the period commencing on the date of the termination of the Employment Period for any reason and ending on the twelve (12) month anniversary of such date of termination.

(d) Non-Disparagement. I agree that during the Employment Period, and at all times thereafter, I will not make any disparaging or defamatory comments regarding any member of the Company Group or its respective current or former directors, officers, or employees in any respect or make any comments concerning any aspect of my relationship with any member of the Company Group or any conduct or events which precipitated any termination of my employment from any member of the Company Group. However, my obligations under this subparagraph (d) shall not apply to disclosures required by applicable law, regulation, or order of a court or governmental agency.

Section 6. **Reasonableness of Restrictions**.

I acknowledge and recognize the highly competitive nature of the Company's business, that access to Confidential Information renders me special and unique within the Company's industry, and that I will have the opportunity to develop substantial relationships with existing and prospective clients, accounts, customers, consultants, contractors, investors, and strategic partners of the Company Group during the course of and as a result of my employment with the Company. In light of the foregoing, I recognize and acknowledge that the restrictions and limitations set forth in this Non-Interference Agreement are reasonable and valid in geographical and temporal scope and in all other respects and are essential to protect the value of the business and assets of the Company Group. I acknowledge further that the restrictions and limitations set forth in this Non-Interference Agreement will not materially interfere with my ability to earn a living following the termination of my employment with the Company and that my ability to earn a livelihood without violating such restrictions is a material condition to my employment with the Company.

Section 7. **Independence; Severability; Blue Pencil**.

Each of the rights enumerated in this Non-Interference Agreement shall be independent of the others and shall be in addition to and not in lieu of any other rights and remedies available to the Company Group at law or in equity. If any of the provisions of this Non-Interference Agreement or any part of any of them is hereafter construed or adjudicated to be invalid or unenforceable, the same shall not affect the remainder of this Non-Interference Agreement, which shall be given full effect without regard to the invalid portions. If any of the covenants contained herein are held to be invalid or unenforceable because of the duration of such provisions or the area or scope covered thereby, I agree that the court making such determination shall have the power to reduce the duration, scope, and/or area of such provision to the maximum and/or broadest duration, scope, and/or area permissible by law, and in its reduced form said provision shall then be enforceable.

Section 8. **Injunctive Relief**.

I expressly acknowledge that any breach or threatened breach of any of the terms and/or conditions set forth in this Non-Interference Agreement may result in irreparable injury to the members of the Company Group. Therefore, I hereby agree that, in addition to any other remedy that may be available to the Company, any member of the Company Group shall be entitled to seek injunctive relief, specific performance, or other equitable relief by a court of appropriate jurisdiction in the event of any breach or threatened breach of the terms of this Non-Interference Agreement without the necessity of proving irreparable harm or injury as a result of such breach or threatened breach. Notwithstanding any other provision to the contrary, I acknowledge and agree that the Post-Termination Non-Compete Period, or Post-Termination Non-Interference Period, as applicable, shall be tolled during any period of violation of any of the covenants in Section 5 hereof.

Section 9. **Cooperation**.

I agree that, following any termination of my employment, I will continue to provide reasonable cooperation to the Company and/or any other member of the Company Group and its or their respective counsel in connection with any investigation, administrative proceeding, or litigation relating to any matter that occurred during my employment in which I was involved or of which I have knowledge. As a condition of such cooperation, the Company shall reimburse me for reasonable out-of-pocket expenses incurred at the request of the Company with respect to my compliance with this paragraph. I also agree that, in the event that I am subpoenaed by any person or entity (including, but not limited to, any government agency) to give testimony or provide documents (in a deposition, court proceeding, or otherwise) that in any way relates to my employment by the Company and/or any other member of the Company Group, I will give prompt notice of such request to the Company and will make no disclosure until the Company and/or the other member of the Company Group has had a reasonable opportunity to contest the right of the requesting person or entity to such disclosure.

Section 10. **General Provisions**.

(a) Governing Law and Jurisdiction. THIS NON-INTERFERENCE AGREEMENT IS GOVERNED BY AND IS TO BE CONSTRUED UNDER THE LAWS OF THE STATE OF NORTH CAROLINA, WITHOUT REGARD TO CONFLICT OF LAWS RULES. ANY DISPUTE OR CLAIM ARISING OUT OF OR RELATING TO THIS NON-INTERFERENCE AGREEMENT OR CLAIM OF BREACH HEREOF SHALL BE BROUGHT EXCLUSIVELY IN FEDERAL COURT IN THE STATE OF NORTH CAROLINA.BY EXECUTION OF THE NON-INTERFERENCE AGREEMENT, THE PARTIES HERETO, AND THEIR RESPECTIVE AFFILIATES, CONSENT TO THE EXCLUSIVE JURISDICTION OF SUCH COURT, AND WAIVE ANY RIGHT TO CHALLENGE JURISDICTION OR VENUE IN SUCH COURT WITH REGARD TO ANY SUIT, ACTION, OR PROCEEDING UNDER OR IN CONNECTION WITH THE NON-INTERFERENCE AGREEMENT. EACH PARTY TO THIS NON-INTERFERENCE AGREEMENT ALSO HEREBY WAIVES ANY RIGHT TO TRIAL BY JURY IN CONNECTION WITH ANY SUIT ACTION, OR PROCEEDING UNDER OR IN CONNECTION WITH THIS NON-INTERFERENCE AGREEMENT.

(b) Entire Agreement. This Non-Interference Agreement sets forth the entire agreement and understanding between the Company and me relating to the subject matter herein and merges all prior discussions between us. No modification or amendment to this Non-Interference Agreement, nor any waiver of any rights under this Non-Interference Agreement, will be effective unless in writing signed by the party to be charged. Any subsequent change or changes in my duties, obligations, rights, or compensation will not affect the validity or scope of this Non-Interference Agreement.

(c) No Right of Continued Employment. I acknowledge and agree that nothing contained herein shall be construed as granting me any right to continued employment by the Company, and the right of the Company to terminate my employment at any time and for any reason, with or without cause, is specifically reserved.

(d) Successors and Assigns. This Non-Interference Agreement will be binding upon my heirs, executors, administrators, and other legal representatives and will be for the benefit of the Company, its successors, and its assigns. I expressly acknowledge and agree that this Non-Interference Agreement may be assigned by the Company without my consent to any other member of the Company Group as well as any purchaser of all or substantially all of the assets or stock of the Company, whether by purchase, merger, or other similar corporate transaction, provided that the license granted pursuant to Section 2(a) may be assigned to any third party by the Company without my consent.

(e) Survival. The provisions of this Non-Interference Agreement shall survive the termination of my employment with the Company and/or the assignment of this Non-Interference Agreement by the Company to any successor in interest or other assignee.

* * *

I, Anthony A. Tomae, have executed this Confidentiality, Non-Interference, and Invention Assignment Agreement on the respective date set forth below:

Date: November 23, 2012 /s/ Anthony A. Tomae

(Signature)

Exhibit 21

FAIRPOINT COMMUNICATIONS, INC.
(formerly known as MJD Communications, Inc.)
SUBSIDIARIES

Name	Jurisdiction of Incorporation
ST Enterprises, Ltd.	**Kansas**
FairPoint Vermont, Inc.	Delaware
ST Long Distance, Inc.	Delaware
Sunflower Telephone Company, Inc.	Kansas
Northland Telephone Company of Maine, Inc.	Maine
MJD Ventures, Inc.	**Delaware**
GTC Communications, Inc. (f/k/a TPG Communications, Inc.)	Delaware
St. Joe Communications, Inc.	Florida
GTC, Inc.	Florida
C-R Communications, Inc.	Illinois
C-R Telephone Company	Illinois
C-R Long Distance, Inc.	Illinois
Community Service Telephone Co.	Maine
Sidney Telephone Company	Maine
Utilities, Inc.	Maine
China Telephone Company	Maine
Maine Telephone Company	Maine
Standish Telephone Company	Maine
UI Long Distance, Inc.	Maine
Berkshire Telephone Corporation	New York
Berkshire Cable Corp.	New York
Berkshire Cellular, Inc.	New York
Berkshire New York Access, Inc.	New York
Chautauqua and Erie Telephone Corporation	New York
Chautauqua & Erie Communications, Inc.	New York
C & E Communications, Ltd.	New York
Taconic Telephone Corp.	New York
Taconic Technology Corp.	New York
Taconic TelCom Corp.	New York
The Columbus Grove Telephone Company	Ohio
Quality One Technologies, Inc.	Ohio
The Germantown Independent Telephone Company	Ohio
Germantown Long Distance Company	Ohio
The Orwell Telephone Company	Ohio
Orwell Communications, Inc.	Ohio
Chouteau Telephone Company	Oklahoma
Bentleyville Communications Corporation	Pennsylvania
BE Mobile Communications, Incorporated	Pennsylvania
Marianna and Scenery Hill Telephone Company	Pennsylvania
Marianna Tel, Inc.	Pennsylvania
Peoples Mutual Telephone Company	Virginia
Peoples Mutual Long Distance Company	Virginia
Comerco, Inc.	Washington
YCOM Networks, Inc.	Washington
Ellensburg Telephone Company	Washington
Elltel Long Distance Corp.	Delaware
MJD Services Corp.	**Delaware**
Big Sandy Telecom, Inc.	Delaware
Bluestem Telephone Company	Delaware
Columbine Telecom Company (f/k/a Columbine Acquisition Corp.)	Delaware
Odin Telephone Exchange, Inc.	Illinois

Ravenswood Communications, Inc.	Illinois
El Paso Long Distance Company	Illinois
The El Paso Telephone Company	Illinois
FairPoint Communications Missouri, Inc.	Missouri
Unite Communications Systems, Inc.	Missouri
ExOp of Missouri, Inc.	Missouri
FairPoint Carrier Services, Inc.	**Delaware**
(f/k/a FairPoint Communications Solutions Corp., f/k/a FairPoint Communications Corp.)	
FairPoint Broadband, Inc.	**Delaware**
Northern New England Telephone Operations LLC	**Delaware**
Telephone Operating Company of Vermont LLC	Delaware
Enhanced Communications of Northern New England Inc.	**Delaware**
FairPoint Logistics, Inc. (f/k/a MJD Capital Corp.)	**South Dakota**
FairPoint Business Services LLC	**Delaware**

Exhibit 23.1

Consent of Independent Registered Public Accounting Firm

We consent to the incorporation by reference in the Registration Statement (Form S-8 No. 333-171835) pertaining to the 2010 Long Term Incentive Plan of our reports dated March 7, 2013, with respect to the consolidated financial statements of FairPoint Communications, Inc. and subsidiaries, and the effectiveness of internal control over financial reporting of FairPoint Communications, Inc. and subsidiaries included in this Annual Report (Form 10-K) for the year ended December 31, 2012.

/s/ Ernst & Young LLP

Charlotte, North Carolina
March 7, 2013

Exhibit 31.1

CERTIFICATION

I, Paul H. Sunu, certify that:

1. I have reviewed this Annual Report on Form 10-K of FairPoint Communications, Inc. (the "Company");
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the Company as of, and for, the periods presented in this report;
4. The Company's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in the Securities Exchange Act of 1934, as amended (the "Exchange Act") Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the Company and have:
   (i) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
   (ii) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
   (iii) evaluated the effectiveness of the Company's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
   (iv) disclosed in this report any change in the Company's internal control over financial reporting that occurred during the Company's most recent fiscal quarter (the Company's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting;
5. The Company's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Company's auditors and the audit committee of the Company's board of directors (or persons performing the equivalent functions):
   (i) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Company's ability to record, process, summarize and report financial information; and
   (ii) Any fraud, whether or not material, that involves management or other employees who have a significant role in the Company's internal control over financial reporting.

Date: March 7, 2013

/s/ Paul H. Sunu

Paul H. Sunu
Chief Executive Officer

Exhibit 31.2

CERTIFICATION

I, Ajay Sabherwal, certify that:

1. I have reviewed this Annual Report on Form 10-K of FairPoint Communications, Inc. (the “Company”);
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the Company as of, and for, the periods presented in this report;
4. The Company’s other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in the Securities Exchange Act of 1934, as amended (the “Exchange Act”) Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the Company and have:
   - (i) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
   - (ii) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
   - (iii) evaluated the effectiveness of the Company’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
   - (iv) disclosed in this report any change in the Company’s internal control over financial reporting that occurred during the Company’s most recent fiscal quarter (the Company’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the Company’s internal control over financial reporting;
5. The Company’s other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Company’s auditors and the audit committee of the Company’s board of directors (or persons performing the equivalent functions):
   - (i) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Company’s ability to record, process, summarize and report financial information; and
   - (ii) Any fraud, whether or not material, that involves management or other employees who have a significant role in the Company’s internal control over financial reporting.

Date: March 7, 2013

/s/ Ajay Sabherwal

Ajay Sabherwal

Chief Financial Officer

Exhibit 32.1

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Annual Report on Form 10-K of FairPoint Communications, Inc. (the "Company") for the year ended December 31, 2012 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Paul H. Sunu, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

1. The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Paul H. Sunu

Paul H. Sunu
Chief Executive Officer

March 7, 2013

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

Exhibit 32.2

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Annual Report on Form 10-K of FairPoint Communications, Inc. (the “Company”) for the year ended December 31, 2012 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Ajay Sabherwal, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

1. The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Ajay Sabherwal
Ajay Sabherwal
Chief Financial Officer

March 7, 2013

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

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

Form 10-K

(Mark One)

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

For the fiscal year ended December 31, 2013.

or

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

For the transition period from to

Commission file number 001-32408

FairPoint Communications, Inc.
(Exact name of registrant as specified in its charter)

Delaware **(State or other jurisdiction of incorporation or organization)**	**13-3725229** **(I.R.S. Employer Identification No.)**
521 East Morehead Street, Suite 500 **Charlotte, North Carolina** **(Address of principal executive offices)**	**28202** **(Zip Code)**

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

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of exchange on which registered
Common Stock, par value $0.01 per share	The Nasdaq Stock Market LLC (Nasdaq Capital Market)

Securities registered pursuant to Section 12(g) of the Act:
None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☐ No ☒

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Act. Yes ☐ No ☒

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

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☒

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

Large accelerated filer	☐	Accelerated filer	☒

Non-accelerated filer	☐ (Do not check if a smaller reporting company)	Smaller reporting company	☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes ☐ No ☒

The aggregate market value of the common stock of the registrant held by non-affiliates of the registrant as of June 28, 2013 (based on the closing price of $8.35 per share) was $216,153,093.

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

As of February 28, 2014, there were 26,681,024 shares of the registrant's common stock, par value $0.01 per share, outstanding.

Documents incorporated by reference: Part III of this annual report on Form 10-K incorporates information by reference from the registrant's definitive proxy statement to be filed with the Securities and Exchange Commission pursuant to Regulation 14A under the Securities Exchange Act of 1934, as amended, within 120 days after the close of the registrant's fiscal year.

FAIRPOINT COMMUNICATIONS, INC.
ANNUAL REPORT ON FORM 10-K FOR THE YEAR ENDED DECEMBER 31, 2013

TABLE OF CONTENTS

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

Some statements in this Annual Report on Form 10-K for our fiscal year ended December 31, 2013 (this "Annual Report") are known as "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended (the "Securities Act"), and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). These forward-looking statements include, but are not limited to, statements about our plans, objectives, expectations and intentions and other statements contained in this Annual Report that are not historical facts. When used in this Annual Report, the words "expects," "anticipates," "intends," "plans," "believes," "seeks," "estimates" and similar expressions are generally intended to identify forward-looking statements. Because these forward-looking statements involve known and unknown risks and uncertainties, there are important factors that could cause actual results, events or developments to differ materially from those expressed or implied by these forward-looking statements, including factors discussed under "Item 1A. Risk Factors" and other parts of this Annual Report and the factors set forth below:

- future performance generally and our share price as a result thereof;
- restrictions imposed by the agreements governing our indebtedness;
- our ability to satisfy certain financial covenants included in the agreements governing our indebtedness;
- financing sources and availability, and future interest expense;
- our ability to repay or refinance our indebtedness;
- our ability to fund substantial capital expenditures;
- anticipated business development activities and future capital expenditures;
- the effects of regulation, including changes in federal and state regulatory policies, procedures and mechanisms including but not limited to the availability and levels of regulatory support payments, and the remaining restrictions and obligations imposed by federal and state regulators as a condition to the approval of the Merger (as defined hereinafter) and the Plan (as defined hereinafter);
- adverse changes in economic and industry conditions, and any resulting financial or operational impact, in the markets we serve;
- labor matters, including workforce levels, our workforce reduction initiatives, labor negotiations and any work stoppages relating thereto, and any resulting financial or operational impact;
- material technological developments and changes in the communications industry, including declines in access lines and disruption of our third party suppliers' provisioning of critical products or services;
- change in preference and use by customers of alternative technologies;
- the effects of competition on our business and market share;
- our ability to overcome changes to or pressure on pricing and their impact on our profitability;
- intellectual property infringement claims by third parties;
- failure of, or attack on, our information technology infrastructure;
- risks related to our reported financial information and operating results;
- availability of net operating loss ("NOL") carryforwards to offset anticipated tax liabilities;
- the impact of changes in assumptions on our ability to meet obligations to our company-sponsored qualified pension plans and post-retirement healthcare plans;
- the impact of lump sum payments related to accrued vested benefits under our company-sponsored qualified pension plans on future pension contributions;
- the effects of severe weather events, such as hurricanes, tornadoes and floods, terrorist attacks, cyber-attacks or other natural or man-made disasters; and
- changes in accounting assumptions that regulatory agencies, including the Securities and Exchange Commission (the "SEC"), may require or that result from changes in the accounting rules or their application, which could result in an impact on earnings.

You should not place undue reliance on such forward-looking statements, which are based on the information currently available to us and speak only as of the date on which this Annual Report was filed with the SEC. We undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. However, your attention is directed to any further disclosures made on related subjects in our subsequent reports filed with the SEC on Forms 10-K, 10-Q and 8-K.

PART I

ITEM 1. BUSINESS

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

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

Our Business

We are a leading provider of advanced communications services to business, wholesale and residential customers within our service territories. We offer our customers a suite of advanced data services such as Ethernet, high capacity data transport and other IP-based services over our Next Generation Network (as defined herein) in addition to Internet access, high-speed data ("HSD") and local and long distance voice services. Our service territory spans 17 states where we are the incumbent communications provider primarily serving rural communities and small urban markets. Many of our local exchange carriers ("LECs") have served their respective communities for more than 80 years. We operate with approximately 1.2 million access line equivalents, including approximately 330,000 broadband subscribers, in service as of December 31, 2013.

We own and operate an extensive next-generation fiber network with more than 16,000 miles of fiber optic cable (the "Next Generation Network") in Maine, New Hampshire and Vermont, giving us capacity to support more HSD services and extend our fiber reach into more communities across the region. The IP/Multiple Protocol Label Switched ("IP/MPLS") network architecture of our Next Generation Network allows us to provide Ethernet, transport and other IP-based services with the highest level of reliability at a lower cost of service. This fiber network also supplies critical infrastructure for wireless carriers serving the region as their bandwidth needs increase, driven by mobile data from smartphones, tablets and other wireless devices. As of December 31, 2013, we provide cellular transport, also known as backhaul, through over 1,300 mobile Ethernet backhaul connections. We have fiber connectivity to more than 1,000 cellular telecommunications towers in our service footprint.

We were incorporated in Delaware in 1991 and grew through acquisitions to operate 30 LECs in 18 states with approximately 0.3 million access line equivalents as of December 31, 2007. Then, in March 2008, we completed the acquisition of the Northern New England operations from Verizon through the Merger. This acquisition significantly expanded our geographic platform in Maine, New Hampshire and Vermont increasing our access line density and at that time adding approximately 1.6 million access line equivalents from residential, business and wholesale customers.

Transformation of our Business

We have transformed our network and are aligning our communications services to meet changing customer preferences and communications requirements. Over the past few years, we have made significant capital investments in our Next Generation Network to expand our business service offerings to meet the growing data needs of our business customers and to increase broadband speeds and capacity in our consumer markets. We have also focused our sales and marketing efforts on these advanced data solutions. Specifically, we built and launched high capacity Ethernet services to allow us to meet the capacity needs of our business customers as well as supply high capacity infrastructure to our wholesale customers.

Business and wholesale customers have a growing demand for bandwidth and are converting from services such as Asynchronous Transfer Mode ("ATM") and Frame Relay and dedicated transport using T-1s to Ethernet-based products. Businesses are also looking to take advantage of the flexibility of voice services via Voice over Internet Protocol ("VoIP"). Residential customer trends have shown an increasing adoption and demand for higher speed broadband services while traditional voice services are giving way to wireless and alternative carriers. Our plan is to continue to add advanced data products and services that meet our business and wholesale customers' needs while providing HSD options, attractive pricing features and appealing bundle offers that help retain our residential customer base.

We have been successful in meeting the needs of our wireless carrier customers through our Fiber to the Tower ("FTTT") initiative. We have seen an increase in fiber backhaul from wireless carriers since late 2010. We now have over 1,000 cell towers served with fiber. Our extensive fiber network of over 16,000 miles of fiber optic cable in Maine, New Hampshire and Vermont is a competitive advantage in delivering FTTT services.

We believe recent regulatory reforms in Maine, New Hampshire and Vermont will serve to promote fair competition among communication services providers in that region. We continue to believe that there is a significant organic growth opportunity within these business markets given our extensive fiber network and IP-based product suite combined with our relatively low business market share in these areas.

Generation of Revenue

We offer a broad portfolio of services to meet the communications and technology needs of our customers, including bundling of services designed to simplify our customers' purchasing and management processes. Our basic offerings are outlined below.

See "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations" and "Item 8. Financial Statements and Supplementary Data" included elsewhere in this Annual Report for more information regarding our revenue sources and financial results, respectively.

Data and Internet Services

We believe data and Internet services are the cornerstone of our growth strategy for our business customers who require more advanced data solutions and our wholesale customers who experience capacity demands from their end users for higher speed services. We offer an extensive array of high capacity data services including: optical, Ethernet, IP services, Ethernet virtual circuit technology for cellular backhaul and private line special access services. We work with large businesses and carriers to deliver network capacity to meet their specific needs, including migrating networks from time division multiplexing to Ethernet-based high capacity circuits. We have recently expanded our portfolio to include Hosted PBX (Primary Branch Exchange) service over our Ethernet network. This service provides a cloud based voice offering for business customers. The service leverages our softswitch platform and uses a set of approved vendors for on-site hardware and maintenance support. Hosted PBX service allows us to continue to expand the services we offer to business customers, while leveraging our Ethernet network.

We offer broadband Internet access via digital subscriber line ("DSL") technology, fiber-to-the-home technology, dedicated T-1 connections, Internet dial-up, high speed cable modem and wireless broadband. Customers can utilize this access in combination with customer-owned equipment and software to establish a presence on the Internet. We offer enhanced Internet services, which include obtaining IP addresses, basic website design and hosting, domain name services, content feeds and web-based e-mail services. We also offer carrier Ethernet services throughout our market to our business and wholesale customers. Carrier Ethernet services provide high capacity internet access as well as private corporate networking solutions at high speeds to our business customers.

Voice Services

Local Calling Services. Local calling service enables the local customer to originate and receive an unlimited number of calls within a defined "exchange" area. Local calling services include basic local lines and local private lines. We provide local calling services to residential and business customers, generally for a fixed monthly charge and service charges for special calling features. In a LEC's territory, the amount that we can charge a customer for local service is generally determined by proceedings involving the appropriate state regulatory authorities.

Long Distance Services. We offer dedicated long distance services within our service areas on our network and through resale agreements with national interexchange carriers. In addition, through our wholly-owned subsidiary, FairPoint Carrier Services, Inc., we offer wholesale long distance services to communications providers that are not affiliated with us.

High-Cost Loop Funding. We receive Connect America Fund ("CAF") Phase I frozen support (formerly Universal Service Fund ("USF") high-cost support) subsidies to supplement the amount of local service revenue received by us to ensure that basic local service rates for customers in high-cost areas are consistent with rates charged in lower cost areas, as described below in "—Regulatory Environment".

Access

Network Transport Services. We offer network transport services to wholesale customers for their use in connecting end users to the interexchange networks of the wholesale customer. These network transport services include special access services, which are primarily DS-1 and DS-3 services, and high speed digital services, which are primarily Ethernet-based services provisioned over fiber and copper facilities.

Network Switched Access Service. Network access enables long distance companies to utilize our local network to originate or terminate intrastate and interstate communications. Network switched access charges relate to long distance, or toll calls, that typically involve more than one company in the provision of telephone service as well as to the termination of interexchange private line services. Since toll calls and private line services are generally billed to the customer originating the call or ordering the private line service, a mechanism is required to compensate each company providing services relating to the service. This mechanism is the access charge and we bill access charges to long distance companies and other customers for the use of our facilities to access the customer, as described below. Network switched access compensation is subject to the Federal Communications Commission ("FCC") CAF/intercarrier compensation ("ICC") Order (referred to hereafter as the "CAF/ICC Order"), as described in "—Regulatory Environment." Under the new rules, network switched access revenues are expected to continue to decline, but on a more predictable basis with fewer disputes.

Interstate Access Charges. We generate interstate access revenue when an interstate long distance call is originated by a customer in one of our exchanges to a customer in another state, or when such a call is terminated to a customer in one of our exchanges. We also generate interstate access revenue when an interexchange carrier orders special access to connect interexchange private line services, such as HSD services, to a customer in one of our local exchanges. We bill interstate access charges in the same manner as we bill intrastate access charges as described below; however, interstate access charges are regulated and approved by the FCC instead of the state regulatory authority.

Intrastate Access Charges. We generate intrastate access revenue when an intrastate long distance call involving an interexchange carrier is originated by a customer in one of our exchanges to a customer in another exchange in the same state, or when such a call is terminated to a customer in one of our local exchanges. We also generate intrastate access revenue when an interexchange carrier orders special access to connect interexchange private line services, such as HSD services, to a customer in one of our local exchanges. The interexchange carrier pays us an intrastate access fee for either terminating or originating the communication. We bill access charges relating to such service through our carrier access billing system and receive the access payment from the interexchange carrier. Access charges for intrastate services are regulated and approved by the state regulatory authority and are also subject to the rate transitions ordered by the FCC in its CAF/ICC order.

Other Services

We seek to capitalize on our LECs' local presence and network infrastructure by offering enhanced services to customers, including directory services, video and special purpose projects, among others.

Directory Services. Through our local telephone companies, we publish telephone directories in some of our locations. These directories provide white page listings, yellow page listings and community information listings. We contract with leading industry providers to assist in the sale of advertising and the compilation of information, as well as the production, publication and distribution of these directories. We do not publish directories in our Northern New England markets and do not receive any portion of the directory advertising associated with the directories in those markets.

Video. In certain of our markets, we offer video services to our customers by reselling DirecTV content and providing cable and IP television video-over-DSL.

Value Added Services. In targeted markets, we offer additional value added and convenience-based services for our customers including power utility offerings through a marketing arrangement and conference calling services for business and residential customers, among others. We are continually working to build stronger relationships with our customers as their needs evolve.

Special Purpose Projects. Upon request from customers, we provide project-based implementation support services. These services are provided on a time and materials basis at the customer location as part of a larger FairPoint solution. This capability allows us to better serve our customers and assist in filling resource gaps they may encounter when implementing new communications plans.

Our Markets

Most of our 32 LECs operate as the incumbent local exchange carrier ("ILEC") in each of their respective markets with business, wholesale and residential customers in addition to broadband subscribers. The following chart identifies the number of access line equivalents and percentage thereof by customer type as of December 31, 2013 and 2012:

Access Line Equivalents by Type	December 31, 2013		December 31, 2012	
Residential	527,890	43.7%	586,725	45.9%
Business	291,417	24.2%	299,701	23.5%
Wholesale	59,859	5.0%	65,641	5.1%
Total voice access lines	**879,166**	**72.7%**	**952,067**	**74.5%**
Broadband subscribers	329,766	27.3%	326,367	25.5%
Total access line equivalents (1)	**1,208,932**	**100.0%**	**1,278,434**	**100.0%**

(1) On January 31, 2013, we completed the sale of our operations in Idaho which accounted for 5,604 access line equivalents at December 31, 2012.

Our operations are primarily focused in rural and small urban markets and are geographically concentrated in the northeastern United States. The following chart identifies the number of access line equivalents and percentage thereof by state as of December 31, 2013 and 2012:

Access Line Equivalents by State	December 31, 2013		December 31, 2012	
Maine	424,186	35.1%	452,743	35.4%
New Hampshire	347,738	28.8%	363,495	28.4%
Vermont	254,833	21.1%	264,266	20.7%
Florida	44,155	3.7%	47,394	3.7%
New York	42,162	3.5%	43,901	3.4%
Washington	37,552	3.1%	40,000	3.1%
Missouri	12,650	1.0%	13,147	1.0%
Ohio	11,634	1.0%	12,089	1.0%
Virginia	8,049	0.7%	8,320	0.7%
Kansas	5,994	0.5%	6,202	0.5%
Pennsylvania	5,322	0.4%	5,564	0.4%
Illinois	4,971	0.4%	5,393	0.4%
Oklahoma	3,837	0.3%	4,101	0.3%
Colorado	2,914	0.2%	3,160	0.3%
Other states (1)	2,935	0.2%	3,055	0.3%
Idaho (2)	—	—%	5,604	0.4%
Total access line equivalents	**1,208,932**	**100.0%**	**1,278,434**	**100.0%**

(1) Includes Massachusetts, Georgia and Alabama.

(2) On January 31, 2013, we completed the sale of our Idaho-based operations.

Sales and Marketing

FairPoint Communications owns and operates a fiber-core Ethernet network for delivery of advanced data, voice and video technologies to businesses, public and private institutions, consumers, wireless companies and wholesale re-sellers. With more than 16,000 miles of fiber optic cable and 87% of our central offices enabled for Ethernet services, FairPoint offers the largest such network in Northern New England. Combined with our copper network, our infrastructure reaches more than 95% of businesses in Maine, New Hampshire and Vermont. By investing in a dense, high-performing, scalable network, FairPoint has bandwidth and transport capacity to support enhanced applications, including the next generation of mobile and cloud-based communications, such as small cell wireless backhaul technology, VoIP, data storage, managed services and disaster recovery. Our marketing approach emphasizes the benefits of our advanced network while utilizing customer-oriented, locally-focused messages that resonate by community and by customer segment.

Our focus on individual communities stems from the expertise of more than 3,100 employees who work and live in the markets where we provide service, as well as our belief that many customers in our territory prefer to do business locally. We view our visible local presence as a competitive differentiator because it enables a prompt and locally relevant approach to opportunities and challenges in sales and service, operations, and marketing. As a result, we often leverage the heritage of the LECs in our service areas and the brand recognition our long history of service provides.

We tailor our marketing offers, messaging and tactics to be effective and efficient for each customer audience using both call center and direct sales channels. Residential customers, who make up the largest part of our customer base, are directed to customer sales and service call centers based in the markets we serve. As we seek continued growth in business services, we leverage local call centers for sales and service efficiency among our small-office and home-office clientele, as well as a direct sales force that is trained to develop advanced, customized voice and data solutions. The direct sales force that focuses on small and medium businesses dedicates representatives to exclusive geographic territories and encourages involvement in the local business community during and after hours. The direct sales force focused on large and enterprise business utilizes both a geographic territory assignment and a named account program. The government, education and wholesale teams utilize a named account approach, focusing on specific new and existing customers within their annual sales plans.

We maintain teams of local sales support staff and experienced sales engineers who can design the right solution for each organization and guide new customers during the pre- and post-sales process. Support teams are customized based on account size and product set, and dedicated representatives are on call to answer questions, troubleshoot if necessary, and serve as a conduit to much broader resources, options and support, including our in-market Network Operations Center. We also place an emphasis on customer satisfaction and retention, with certain representatives focused on maintaining existing customer relationships.

Information Technology and Support Systems

We have a customer-focused approach to information technology ("IT") which allows for efficient business operations and supports revenue growth. Our approach is to simplify and standardize processes in order to optimize the benefits of our back-office and operation support systems. Specifically, our "simplify and optimize" initiative targets the reduction of redundant and manual processes to reduce cycle times, improve efficiency and deliver enhanced customer service.

Our back-office and operations support systems are a combination of integrated off-the-shelf packages that have been customized to support our operations as well as software as a service solution. Our Northern New England operations carrier access billing and our Telecom Group billing operations are supported by outsourced third-party platforms.

Our systems are supported by a combination of employees and contractors. Our internal IT group supports data center operations, data network operations, internal help desk, desktop support and phases of the systems development life cycle. We use professional services firms for the majority of software development and maintenance.

Network Architecture and Technology

Rapid and significant changes in technology continue in the communications industry. Our success depends, in part, on our ability to anticipate and adapt to technological changes. With this in mind, we continue to evolve and expand our advanced Next Generation Network in our Northern New England operations. The Next Generation Network is an IP/MPLS network operating on a fiber transport infrastructure that has over 16,000 miles of fiber optic cable. This network is the largest IP/MPLS based network in Northern New England. We have made significant investments in our fiber optic network to expand our business service offerings to meet the growing needs of our customers and to increase broadband speeds and capacity in our consumer markets. We expect to continue to invest in expanding the reach of our fiber network to connect directly to customers' premises, cellular towers and data centers. We monitor the Next Generation Network utilization and augment capacity as needed to avoid network problems. We believe this network architecture will enable us to efficiently respond to these technological changes.

Next Generation Network transport systems in our Northern New England operations and our Telecom Group are a combination of Synchronous Optical Network, Dense Wave Division Multiplexing and Ethernet transport capable of satisfying customer demand for high speed bandwidth transport services. This system supports advanced services including carrier Ethernet services and legacy data products such as Frame Relay and ATM, facilitating delivery of advanced services as demand warrants.

In our LEC markets, DSL-enabled access technology has been deployed to provide significant broadband capacity to our customers. As of December 31, 2013, all of our central offices are capable of providing broadband services through DSL technology, cable modem and/or wireless broadband.

During 2013, we expanded our broadband availability across our 17-state territory, which included expanding our broadband footprint in New Hampshire to reach 95% of our customers in the state. We have also made significant updates to our network in rural communities in the 17 states served by our Telecom Group, bringing greater network speed to our customers.

Our LEC network consists of 93 host central offices and 412 remote central offices, all with digital switches. Approximately 99% of our central offices are served by fiber optic facilities, which we own. The primary interconnection with other incumbent carriers is also fiber optic. Our outside plant consists of both fiber optic and copper distribution networks.

Competition

The telecommunications industry is comprised of companies involved in the transmission of voice, data and video communications over various media and through various types of technologies. The competitive environment continues to intensify as consumers and businesses are provided more options for a variety of services, pricing and service quality. Presently, there are four predominant types of local telephone service providers, or carriers, in the telecommunications industry: ILECs, CLECs, cable companies and wireless carriers. ILECs, which the majority of our 32 LECs operate as, were the traditional monopoly providers of the local telephone service prior to the passage of the Telecommunications Act of 1996 (the "1996 Act"). A CLEC is a competitor to local telephone companies that has been granted permission by a state regulatory commission to offer local telephone service in an area already served by an ILEC. CLECs typically offer voice and data services to their customers. Cable companies are the traditional video distribution providers in the market and are now selling packages of voice and data services along with their video services. Wireless competitors also have a significant presence in most markets, offering local and long distance voice services, along with mobile data offerings. As a result, competition in local exchange service areas for voice and data services has increased and is expected to continue to increase from these competitors.

Overall, we face intense competition from a variety of sources for our voice and data services in most of the areas we now serve, many of whom have greater resources and access to capital, and we expect that such competition will continue to intensify in the future. This competition has had an adverse impact on our access lines, broadband subscriber growth rates and revenues.

Regulations and technology change quickly in the communications industry, and these changes have historically had, and are expected to continue in the future to have, a significant impact on competitive dynamics. For instance, the ubiquity of wireless networks coupled with technology changes, such as VoIP and data-driven devices (i.e., smartphones and computer tablets), are creating increased competition and technology substitution, a trend we expect will continue for the foreseeable future. Public monies in the form of stimulus funds to build broadband networks are also providing a new source of competition for us. In addition, many of our competitors have access to larger workforces or have substantially greater name-brand recognition and financial, technological and other resources than we do. Moreover, some of our competitors, including wireline, wireless and cable, have formed and may continue to form strategic alliances to offer bundled services in our service areas.

We estimate that, as of December 31, 2013, most of the customers that we serve have access to voice, network transport, video services and Internet services through a cable television company. In addition, increasingly, both CLECs and cable companies have begun to penetrate the market for high capacity circuits for large businesses and carriers, including interexchange and wireless providers.

In addition, in most of our service areas, we face competition from wireless carriers for voice and mobile data services. A large portion of households in the United States are moving to a wireless only model. Wireless carriers, particularly those that provide unlimited wireless service plans with no additional fees for long distance, offer customers a substitution service for our access lines and are becoming an increasing threat to our local voice line business. In addition, wireless companies continue to expand their high-speed Internet offerings, which may result in more intense competition for our high-speed Internet customers. Additionally, traditional wireline applications, such as home security systems, are now moving to IP-based models, leveraging an Internet connection in place of a traditional phone line. Although there are unique benefits of our wireline phone service, such as land lines remaining active in the event of a home power outage, we expect continued migration to IP-based and wireless voice services.

We are actively addressing our competitive environment with a multi-faceted approach to increase our market share. This approach is comprised of acquisition programs and new product introductions, retention programs, win-back and upsell initiatives.

Our relatively low current market share provides us the opportunity to both win-back business customers who have left for another carrier as well as acquire new business. In order to better address the needs of our customers and prospects, we segment them across specific channels. Our focus for residential customers is to drive increasing penetration of high speed data customers. We are upgrading our access infrastructure to provide higher speed internet access services via high capacity copper and fiber facilities to more customers and communities each year. We are focusing on promotional programs that allow us to differentiate from cable operators including price lock and multi-year discount programs. We believe bundled services continue to provide value to customers and, as such, we package our services in a range of price points.

In the business and government segments, our Next Generation Network with over 16,000 miles of fiber allows us to deliver Ethernet and fiber based data services typically ranging from 1Mbs to 1Gps. Along with our high capacity data services, we offer competitively priced voice services through VoIP or time division multiplexing ("TDM"). Our three contiguous state footprint allows businesses with muti-state locations to work with one local vendor. Our geographic coverage and extensive fiber network is an attractive feature for our wholesale customers such as wireless carriers seeking cell tower backhaul services and national carriers seeking middle and last mile solutions.

We have a multi-channel retention team, responsible for developing and executing customer retention programs across all areas of FairPoint. Our save desk team has been enhanced to retain disconnecting customers. In addition, we have initiated proactive programs to address customers coming off of promotions and term contracts. Through early intervention, we expect to reduce churn and retain customers longer.

See "—Regulatory Environment" herein and "Item 1A. Risk Factors" included elsewhere in this Annual Report for more information regarding the competition that we face.

Employees

As of December 31, 2013, we employed a total of 3,171 employees, 2,017 of whom were covered by 14 collective bargaining agreements. Our agreements with the International Brotherhood of Electrical Workers ("IBEW") and the Communications Workers of America ("CWA") in Northern New England cover approximately 1,800 employees in the aggregate and expire in August 2014. *See* "Item 1A. Risk Factors—A significant portion of our workforce is represented by labor unions and therefore subject to collective bargaining agreements, two of which, covering approximately 1,800 employees, expire in August 2014. If we are unable to renegotiate these agreements prior to expiration, employees could engage in strikes or other collective behaviors, which could materially adversely impact our business, financial condition, results of operations, liquidity and/or the market price of our outstanding securities." In addition, one collective bargaining agreement in the Telecom Group is due to expire in July 2014.

Intellectual Property

We believe we own or have the right to use all of the intellectual property that is necessary for the operation of our business as we currently conduct it.

Emergence from Chapter 11 Proceedings

On October 26, 2009 (the "Petition Date"), we filed voluntary petitions for relief under chapter 11 of title 11 ("Chapter 11") of the United States Code (the "Bankruptcy Code") in the United States Bankruptcy Court for the Southern District of New York (the "Bankruptcy Court"). These cases were jointly administered under the caption *In re FairPoint Communications, Inc.*, Case No. 09-16335 (each a "Chapter 11 Case", and collectively, the "Chapter 11 Cases"). On January 24, 2011 (the "Effective Date"), we substantially consummated our reorganization through a series of transactions contemplated by our Third Amended Joint Plan of Reorganization Under Chapter 11 of the Bankruptcy Code (as confirmed by the Bankruptcy Court, the "Plan").

The Plan provided for, among other things:

(i) the cancellation and extinguishment on the Effective Date of all our equity interests outstanding on or prior to the Effective Date, including but not limited to all outstanding shares of our common stock, par value $0.01 per share, options and contractual or other rights to acquire any equity interests,

(ii) the issuance of shares of our new common stock, par value $0.01 per share, and the issuance of warrants to purchase shares of our common stock to holders of certain claims in connection with a warrant agreement that we entered into with The Bank of New York Mellon, as the warrant agent, on the Effective Date, in accordance with the Plan,

(iii) the satisfaction of claims associated with

  (a) the credit agreement dated as of March 31, 2008, by and among FairPoint Communications, Spinco, Bank of America, N.A., as syndication agent, Morgan Stanley Senior Funding, Inc. and Deutsche Bank Securities Inc., as co-documentation agents, and Lehman Commercial Paper Inc., as administrative agent, and the lenders party thereto (as amended, supplemented, or otherwise modified from time to time, the "Pre-Petition Credit Facility),

  (b) the 13-1/8% senior notes due April 1, 2018 (the "Old 13-1/8% Notes), which were issued pursuant to the indenture, dated as of March 31, 2008, by and between Spinco and U.S. Bank National Association, as amended, and

  (c) the 13-1/8% senior notes due April 2, 2018 (the "New 13-1/8% Notes" and, together with the Old 13-1/8% notes, the "Pre-Petition Notes"), which were issued pursuant to the indenture, dated as of July 29, 2009, by and between, FairPoint Communications and U.S. Bank National Association, and

(iv) the termination by its conversion into the Old Revolving Facility (as defined below) of the Debtor-in-Possession Credit Agreement, dated as of October 27, 2009 (as amended, the "DIP Credit Agreement").

Our common stock began trading on The Nasdaq Stock Market LLC (the "NASDAQ") on January 25, 2011. In addition, on the Effective Date, FairPoint Communications and FairPoint Logistics, Inc. (collectively, the "Old Credit Agreement Borrowers") entered into a $1,075.0 million senior secured credit facility with a syndicate of lenders and Bank of America, N.A., as the administrative agent for the lenders, arranged by Banc of America Securities LLC (the "Old Credit Agreement"), comprised of a $75.0 million revolving facility (the "Old Revolving Facility") and a $1.0 billion term loan facility (the "Old Term Loan", and together with the Old Revolving Facility, the "Old Credit Agreement Loans"). As discussed below, we refinanced the Old Credit Agreement Loans on February 14, 2013. For more information about this refinancing, *see* "—February 2013 Refinancing" herein.

In connection with the Chapter 11 Cases, we also negotiated with representatives of the state regulatory authorities in Maine, New Hampshire and Vermont and agreed to regulatory settlements with respect to (i) certain regulatory approvals relating to the Chapter 11 Cases and the Plan and (ii) certain modifications to the requirements imposed by state regulatory authorities as a condition to approval of the Merger (each a "Merger Order", and collectively, the "Merger Orders"). For more information regarding these regulatory settlements, *see* "—Regulatory Environment—State Regulation—Regulatory Conditions to the Merger, as Modified in Connection with the Plan" herein.

On June 30, 2011 and on November 7, 2012, the Bankruptcy Court entered final decrees closing certain of the Company's bankruptcy cases due to such cases being fully administered. Of the 80 original bankruptcy cases, only the Chapter 11 Case of Northern New England Telephone Operations LLC (Case No. 09-16365) remains open.

Fresh Start Accounting

Upon our emergence from the Chapter 11 bankruptcy proceedings, we adopted fresh start accounting in accordance with guidance under the applicable reorganization accounting rules, pursuant to which our reorganization value was allocated to our assets in conformity with guidance under the applicable accounting rules for business combinations, using the purchase method of accounting for business combinations. In addition to fresh start accounting, our consolidated financial statements reflect all effects of the transactions contemplated by the Plan. Therefore, our consolidated statements of financial position and consolidated statements of operations subsequent to the Effective Date are not comparable in many respects to our consolidated statements of financial position and consolidated statements of operations for periods prior to the Effective Date. For more information regarding fresh start accounting, *see* note (4) "Reorganization Under Chapter 11" to our consolidated financial statements in "Item 8. Financial Statements and Supplementary Data" included elsewhere in this Annual Report.

February 2013 Refinancing

On February 14, 2013 (the "Refinancing Closing Date"), we completed the refinancing of the Old Credit Agreement Loans (the "Refinancing"). In connection with the Refinancing, we (i) issued $300.0 million aggregate principal amount of 8.75% senior secured notes due in 2019 (the "Notes") in a private offering exempt from registration under the Securities Act pursuant to an indenture that we entered into on the Refinancing Closing Date (the "Indenture") and (ii) entered into a new credit agreement (the "New Credit Agreement"), dated as of the Refinancing Closing Date. The New Credit Agreement provides for a $75.0 million revolving credit facility, including a sub-facility for the issuance of up to $40.0 million in letters of credit (the "New Revolving Facility"), and a $640.0 million term loan facility (the "New Term Loan" and, together with the New Revolving Facility, the "New Credit Agreement Loans"). On the Refinancing Closing Date, we used the proceeds of the Notes offering, together with $640.0 million of borrowings under the New Term Loan and cash on hand to (i) repay principal of $946.5 million outstanding on the Old Term Loan, plus approximately $7.7 million of accrued interest and (ii) pay approximately $32.6 million of fees, expenses and other costs related to the Refinancing. For further information regarding the New Credit Agreement, the Notes and our repayment of the Old Credit Agreement Loans, *see* "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations —Liquidity and Capital Resources" included elsewhere in this Annual Report.

Regulatory Environment

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

We are required to comply with the Communications Act which requires, among other things, that telecommunications carriers offer telecommunications services at just and reasonable rates and on terms and conditions that are not unreasonably discriminatory. The Communications Act contains requirements intended to promote competition in the provision of local services and lead to deregulation as markets become more competitive.

The FCC's CAF/ICC Order (as defined herein and sometimes referred to in the industry as the "Transformation Order") modified regulation for us beginning January 1, 2012. Effective January 1, 2012, the FCC eliminated the rural/non-rural distinction among ILECs and treats ILECs as either price cap or rate-of-return. Under the new rules, effective January 1, 2012, all of our ILECs are treated as price cap companies for CAF purposes, including the Telecom Group rate-of-return companies. However, the Telecom Group rate-of-return companies continue to be treated as rate-of-return for regulation of interstate switched and special access services. In addition, the FCC has preempted certain state regulation over our ILECs, including capping all state originating and terminating switched access charges and reducing terminating state switched access charges beginning July 1, 2012, in a two-year transition to make state switched access charges equal to interstate switched access charges. Following this two-year transition and starting July 1, 2014, all terminating usage rates will transition to zero over the following four to seven years.

Overview of FCC CAF/ICC Order to Reform Universal Service and Intercarrier Compensation

On March 16, 2010, the FCC submitted the National Broadband Plan ("NBP") to the United States Congress. The NBP is a plan to bring high-speed Internet services to the entire country, including remote and high-cost areas. In accordance with the NBP, the FCC commenced several rulemakings that concern, among other things, reforming high-cost and low-income programs to promote universal service to make those funds more efficient while promoting broadband communications in areas that otherwise would be unserved and to address changes to interstate access charges and other forms of ICC.

On November 18, 2011, the FCC released its comprehensive landmark order to modify the nationwide system of universal support and the ICC system (the "CAF/ICC Order"). In this order, the FCC replaced all existing USF for price cap carriers with its CAF. The intent of CAF is to bring high-speed affordable broadband services to all Americans. The CAF/ICC Order fundamentally reforms the ICC process that governs how communications companies bill one another for exchanging traffic, gradually phasing down these charges.

In conjunction with the CAF/ICC Order, the FCC adopted a Notice of Proposed Rulemaking to deal with related matters, including but not limited to: (i) the actual cost model to be adopted for CAF Phase II funding, (ii) treatment of originating access charges, (iii) modifications to CAF for rate-of-return ILECs, (iv) development of CAF Phase II for mobility, (v) CAF Phase II reverse auction rules, (vi) remote areas funding and (vii) IP to IP interconnection issues. It is not known what decisions will be made on these issues or how they may impact us. In general, CAF Phase I is interim support provided to price cap carriers during the period in which the FCC establishes its permanent CAF funding rules for CAF Phase II. CAF Phase I includes certain support structures, including frozen support and optional incremental support. CAF Phase I will continue until CAF Phase II is implemented, which is dependent on how long it takes the FCC to complete its CAF Phase II proceedings.

CAF Phase I and Phase II Support. Pursuant to the CAF/ICC Order, beginning in 2012, we started receiving monthly CAF Phase I frozen support, which is based on and equal to all forms of USF high-cost support we received during 2011. This support is considered transitional funding while the FCC is developing its CAF Phase II program. FCC rules require that if we continue receiving CAF Phase I frozen support beyond 2012, which we have, we will have specific broadband spending obligations starting in 2013. According to the FCC rules, in 2013, we were required to spend, and did spend, one-third of the frozen support to "build and operate broadband-capable networks used to offer the provider's own retail broadband service in areas substantially unserved by an unsubsidized competitor." We anticipate receiving CAF Phase I frozen support in 2014 and, if we do so, our spend obligation will increase to two-thirds. Should we continue to receive CAF Phase I frozen support in 2015 as well, this spend obligation will increase to 100%. In February of 2013, we filed a petition with the FCC for a partial waiver of the spending obligations. On October 30, 2013, the FCC issued an order denying FairPoint's petition, but clarifying the spending rules in a manner that effectively provides the relief we requested by allowing us to certify to the spending obligation at the holding company level.

In addition, pursuant to the revised CAF programs, during 2012, we were offered $4.8 million of one-time funding under the FCC's CAF Phase I incremental support program. Under this program, we can use some or all of this support subject to certain restrictions. We notified the FCC that we accepted $2.0 million of CAF Phase I incremental support funding, which is primarily being used in Vermont. On September 10, 2012, we filed a petition with the FCC asking it to waive its rules to allow us to use the remaining $2.8 million of CAF Phase I incremental support funding to bring high-speed broadband services to 697 customer locations in the state of Maine. This petition was withdrawn on August 27, 2013 in response to the FCC making the unused 2012 funding available in the second round of support offered in the 2013 CAF program. On May 22, 2013, the FCC filed the Report and Order in WC Docket 10-90, which offered the second round of support under the FCC's CAF Phase I incremental support program. We were offered $4.8 million, with the opportunity to oversubscribe to the funding. Additional funding was available in this program to the extent other price cap carriers declined their full amount and because the FCC made an additional $185.0 million available to price cap carriers for this round of support. On August 20, 2013, we applied for $3.3 million from the FCC's CAF Phase I incremental support program and were awarded only $2.9 million due to challenges filed against some of the locations by competing carriers.

FCC New Rules for ICC System. The CAF/ICC Order reformed rules associated with local, state toll and interstate toll traffic exchanged among communications carriers including ILECs, CLECs, cable companies, wireless carriers and VoIP providers. The new rules, the majority of which were effective beginning July 1, 2012, established separate rules for price cap carriers and rate-of-return carriers. Although the FCC order treats our rate-of-return carriers (including companies operating under average schedules) as price cap carriers for CAF funding, it treats them as rate-of-return carriers for purposes of ICC reform. For both price cap and rate-of-return carriers, the FCC established a multi-year transition of terminating traffic compensation to "bill and keep", or zero compensation. For both price cap and rate-of-return carriers, the FCC required carriers to establish fiscal year 2011 ("FY2011") baseline compensation, which was the amount of relevant compensation billed during the period beginning October 1, 2010 and ending September 30, 2011, and collected by March 31, 2012. This FY2011 revenue was used as a starting point for revenue for the transitional period, which is six years for price cap operations and nine years for rate-of-return operations. For each FairPoint ILEC, the FY2011 baseline revenue is reduced by a specified percent during each year of the transition, resulting in a target revenue for each tariff year. At the same time, the FCC rules require reductions in ICC rates for specified services and jurisdictions. As the recoverable revenue declines and the rates decline, any target revenue which will not be covered by ICC revenue can be recovered, in part, from end users through an access recovery charge ("ARC"). Price cap ILECs are permitted to implement monthly end user ARCs with five annual increases of no more than $0.50 for residential/single-line business consumers, for a total monthly ARC of no more than $2.50 in the fifth year; and no more than $1.00 (per month) per line for multi-line business customers, for a total of $5.00 (per month) per line in the fifth year, provided that: (1) any such residential increases would not result in regulated residential end user rates that exceed the $30.00 residential rate ceiling; and (2) any multi-line business customer's total subscriber line charge ("SLC") plus ARC does not exceed $12.20. Rate-of-return ILECs are permitted to implement monthly end user ARCs with six annual increases of no more than $0.50 (per month) for residential/single-line business consumers, for a total ARC of no more than $3.00 in the sixth year; and no more than $1.00 (per month) per line for multi-line business customers for a total of $6.00 (per month) per line in the sixth year, provided that: (1) such increases would not result in regulated residential end user rates that exceed the $30.00 Residential Rate Ceiling; and (2) any multi-line business customer's total SLC plus ARC does not exceed $12.20. We began billing the ARC charges for our price cap and rate of return companies in July 2012 as outlined by the rules above. If the combination of ICC and ARC revenue is not sufficient to cover the targeted revenue, then additional funding will be provided by the CAF in certain circumstances, though there is no guarantee that the ILEC will be made whole.

Vermont Incentive Regulation Plan

Effective April 1, 2011, we entered into an Incentive Regulation Plan ("IRP") for our Northern New England Vermont service territory. The IRP includes a 2011-2015 Amended Retail Service Quality Plan ("RSQP"), which significantly reduced FairPoint's exposure to retail service quality index ("SQI") penalties from $10.5 million to $1.65 million. As of March 31, 2013, the RSQP and related SQI penalties were eliminated in Vermont based upon our achievement of certain retail service metrics. We believe the IRP has allowed our Northern New England operations' retail rates in Vermont to compete with those competitive carriers under a relatively level regulatory scheme, while preserving certain regulatory protections for consumers in areas where competition may not be adequate. The IRP expires on December 31, 2014 and, in order to maintain favorable regulatory treatment, which includes pricing flexibility, reduced regulatory oversight, elimination of automatic service quality penalties and more flexible rate filing options, we will need to extend the IRP or propose a successor IRP to the Vermont Public Service Board ("VPSB").

Legislation for Maine and New Hampshire

During the middle of fiscal year 2012, legislation was enacted into law in both Maine and New Hampshire, which decreased the scope of retail telecommunications regulation for us, eliminating many of the state-specific Merger conditions and providing us with increased ability to compete in the Maine and New Hampshire telecommunications marketplace.

Effective August 10, 2012, the New Hampshire legislature enacted Chapter 177 (known as Senate Bill 48) ("SB 48") in its Session Laws of 2012. SB 48 created a new class of telecommunications carriers known as "excepted local exchange carriers" ("ELECs") and our Northern New England operations qualify as an ELEC in New Hampshire. SB 48 essentially leveled the regulatory scheme imposed upon New Hampshire telecommunications carriers and states that the New Hampshire Public Utilities Commission ("NHPUC") has no authority to impose or enforce any obligation on a specific ELEC that also is not applicable to all other ELECs in New Hampshire except with respect to:

(i) Obligations that arise pursuant to the Communications Act, as amended;
(ii) Obligations imposed on our Northern New England operations that arose prior to February 1, 2011 that relate to the availability of broadband services, soft disconnect processes and capital expenditure commitments within New Hampshire;
(iii) Obligations that relate to the provision of services to CLECs, interexchange carriers and wireless carriers, regardless of technology; or
(iv) Certain obligations related to telephone poles and carrier of last resort responsibilities.

In New Hampshire, beginning with the August 10, 2012 effective date of SB 48, our exposure to annual SQI penalties was eliminated (from $12.5 million to zero) and we have pricing discretion with respect to existing and new retail telecommunications services other than basic local exchange service and certain services provided to customers who qualify for the federal lifeline discount.

On April 12, 2012, Maine Governor Paul LePage signed Public Law 2011, Chapter 623 (also known as P.L. 2011, c.623) (the "Maine Deregulation Legislation") into law. The Maine Deregulation Legislation significantly deregulates retail telecommunications service offerings and reduces regulation applicable to ILECs, such as our Northern New England operations. The legislation eliminated regulatory oversight on all retail services other than the basic exchange service defined in Maine as Provider of Last Resort ("POLR") service and significantly reduced FairPoint's maximum exposure to SQI penalties, and reduced the number of reportable retail metrics.

Under the Maine Deregulation Legislation, our maximum exposure to annual SQI penalties, beginning with Maine's fiscal year ending July 31, 2013, decreased from $12.5 million to $2.0 million. Effective as of Maine's SQI fiscal year beginning August 1, 2013, we are no longer subject to SQI penalties and we have pricing discretion with respect to all existing and new telecommunications services other than POLR service.

During the years ended December 31, 2013 and 2012, voice services revenues were increased by $0.1 million and reduced by $0.2 million, respectively, due to SQI penalties. We estimate that these significant changes in both federal and state regulation will not have a material impact in 2014. However, in the long run, we are uncertain of the ultimate impact as federal and state regulation continues to evolve.

The Maine Public Utilities Commission ("MPUC") issued a show cause order on March 19, 2013 (the "Show Cause Order"), which required us to show cause by written comments filed by April 5, 2013, stating: (1) why the MPUC should not establish August 14, 2013, April 14, 2014 and April 14, 2015 as the deadlines for the remainder of our broadband build-out obligations which the Show Cause Order described as 85%, 87% and 90%, respectively, in Maine; and (2) why the MPUC should not require us to prepare and file, by April 30, 2013, a detailed engineering plan for the remaining portions of our build-out project. The Show Cause Order also required us to file, by April 5, 2013, a detailed report cataloging the number and percentage of addressable lines as of February 28, 2013. In our filing on April 5, 2013, we stated that directives in the Show Cause Order are based on the unfounded assumption that the Maine Supreme Judicial Court sitting as the Law Court has upheld a determination by the MPUC in the calculation order issued on January 11, 2012 (the "Calculation Order") "that a line may only be counted as an 'addressable' line in the numerator if it is capable of achieving an upload speed of 512 kilobits per second and a download speed of 1.5 megabits per second" even if that line is served by the legacy ATM network we acquired from Verizon. On August 14, 2013 the MPUC issued an Order Approving a Stipulation between Northern New England Telephone Operations LLC and the Office of the Maine Public Advocate (the "stipulation order"). In exchange for the termination of the show cause proceeding, the stipulation order requires us to achieve, in Maine, 85% broadband addressability by August 14, 2013 and 87% by April 14, 2014. If either of these commitments is not met, we must achieve 90% broadband addressability in Maine by May 14, 2015. In calculating these percentages, there is no speed requirement for lines served by the legacy ATM network. Additionally, we must (1) contribute $100,000 to ConnectME upon completion of the broadband commitment and (2) spend an additional $11 million during the period from January 1, 2014 to December 31, 2016 on broadband facilities and services that benefit small businesses and residences in Maine. The money may be spent in our sole discretion although the expenditure must include 30 central office overlays. Central office overlays are defined as the addition of equipment to an existing central office that will enable customers served by that central office with loop lengths of up to 22,000 feet from that central office and who purchase our internet service to have the ability to access our Ethernet-based internet service. Additionally, we must make a good faith effort to obtain CAF Phase 1 incremental funding for Maine in the amount corresponding to a broadband expenditure by us of $2,787,904, which was expected to result in CAF funding of approximately $1,034,850, but for which we actually received $861,550. Northern New England Telephone Operations LLC advised the MPUC on August 14, 2013 of the achievement of 85% broadband addressability by August 14, 2013. We believe we are currently on track to achieve 87% broadband addressability by the April 14, 2014 deadline.

Access Charges

Our local exchange subsidiaries receive compensation from long distance telecommunications providers for the use of our subsidiaries' network to originate and terminate state and interstate interexchange traffic. With respect to interstate traffic, the FCC regulates the prices we may charge for this purpose, referred to as access charges, as a combination of flat monthly charges paid by end users, usage sensitive charges paid by long distance carriers and recurring monthly charges for use of dedicated facilities paid by long distance carriers. Intrastate access charges are regulated by the state commissions. The amount of access charge revenue that we will receive is subject to change. The FCC has adopted, in its CAF/ICC Order, a plan to resolve certain billing disputes related to ICC and to transition all terminating state and interstate ICC to zero over a six or nine year period for price cap and rate-of-return companies, respectively.

The FCC's CAF/ICC Order significantly changes the existing rates for access charges, which, combined with the increase in competition, have generally caused the aggregate amount of switched access charges paid by long distance carriers to decrease over time. The FCC, in a separate proceeding, is considering whether to modify price cap rules as they apply to special access and whether to restrict some of the pricing flexibility enjoyed by price cap ILECs, which includes some of our Northern New England operations. We cannot predict what changes, if any, the FCC may eventually adopt and the effect that any of these changes may have on our business.

Universal Service Regulation

Universal Service Fund Support. USF disbursements were distributed only to carriers that were designated as "eligible telecommunications carriers" ("ETCs") by a state regulatory commission. All of our LECs were designated as ETCs. As previously described, the FCC has replaced the legacy USF high-cost programs with its CAF programs.

We benefit indirectly from support to low-income users under the Lifeline and Linkup universal service programs. Effective April 1, 2012, the Linkup program was eliminated for all low-income subscribers except for Native Americans. Linkup is a program which pays 50% of the non-recurring charges, not to exceed $30.00 per month, associated with establishment of local telecommunications service. Also effective April 1, 2012, there were major reforms to the Lifeline program. Prior to the changes, Lifeline credits were based on four tiers of support. The first three tiers of federal support were replaced by a flat credit of $9.25 per month. The fourth tier, which relates to Native Americans, is unchanged. In addition, the FCC established revised eligibility criteria effective April 1, 2012. The revised eligibility criteria established in 2012 resulted in a reduction in lines eligible for Lifeline credits. The FCC order required the Universal Service Administration Company to establish a national database by the end of 2013 which will be used to eliminate duplicate funding. The construction of this database is in process and is being implemented in phases. The elimination of duplicate support could result in fewer customers choosing us for Lifeline service, with the potential that a portion of our Lifeline customers may prefer to use other carriers for this service.

Universal Service Contributions. Federal universal service programs are currently funded through a surcharge on interstate and international end user telecommunications revenues. Declining long distance revenues, the popularity of service bundles that include local and long distance services, and the growth in size of the fund, due primarily to increased funding to competitive ETCs, all prompted the FCC to consider alternative means for collecting this funding. As an interim step, the FCC has ordered that providers of certain VoIP services must contribute to federal universal service funding. The FCC also increased the percentage of revenues subject to federal universal service contribution obligations that wireless providers may use as their methodology for funding universal service. We cannot predict whether the FCC or Congress will require modification to any of the universal contribution rules, or the ultimate impact that any such modification might have on us or our customers.

Local Service Competition

The 1996 Act provides, in general, for the removal of barriers to market entry in order to promote competition in the provision of local telecommunications and information services. As a result, competition in our local exchange service areas will continue to increase from CLECs, wireless providers, cable companies, Internet service providers, electric companies and other providers of network services. Many of these competitors have a significant market presence and brand recognition, which could lead to more competition and a greater challenge to our future revenue growth.

Under the 1996 Act, all LECs, including both ILECs and CLECs, are required to: (i) allow others to resell their services, (ii) ensure that customers can keep their telephone numbers when changing carriers, referred to as local number portability, (iii) ensure that competitors' customers can use the same number of digits when dialing and receive nondiscriminatory access to telephone numbers, operator service, directory assistance and directory listing, (iv) ensure competitive access to telephone poles, ducts, conduits and rights of way and (v) compensate competitors for the cost of completing calls to competitors' customers from the other carrier's customers.

In addition to these obligations, ILECs are subject to additional requirements to: (i) interconnect their facilities and equipment with any requesting telecommunications carrier at any technically feasible point, (ii) unbundle and provide nondiscriminatory access to certain network elements, referred to as unbundled network elements ("UNEs"), including some types of local loops and transport facilities, at regulated rates and on nondiscriminatory terms and conditions, to competing carriers that would be "impaired" without them, (iii) offer their retail services for resale at wholesale rates, (iv) provide reasonable notice of changes in the information necessary for transmission and routing of services over the ILEC's facilities or in the information necessary for interoperability and (v) provide, at rates, terms and conditions that are just, reasonable and nondiscriminatory, for the physical co-location of equipment necessary for interconnection or access to UNEs at the ILEC's premises. Competitors are required to compensate the ILEC for the cost of providing these services.

Our non-rural operations are subject to all of the above requirements. In addition, our non-rural operations are subject to additional unbundling obligations that apply only to Bell Operating Companies. In contrast to the unbundling obligations that apply generally to ILECs, these Bell Operating Company-specific requirements mandate access to certain facilities (such as certain types of local loops and inter-office transport and local circuit switching) even where other carriers would not be "impaired" without them.

Our Telecom Group rural operations are exempt from the additional ILEC requirements until the applicable rural carrier receives a bona fide request for these additional services and the applicable state authority determines that the request is not unduly economically burdensome, is technically feasible and is consistent with the universal service objectives set forth in the 1996 Act. This exemption is effective for all of the Telecom Group operations, except in Florida where the legislature has determined that all ILECs are required to provide the additional services as prescribed in the 1996 Act. Loss of a rural exemption by one or more of the Telecom Group operating companies could be achieved if the state commission grants such a petition filed by a competitor. Loss of the rural exemption would potentially expose the operation to additional local competition.

Long Distance Operations

The FCC has required that ILECs that provide interstate long distance services originating from their local exchange service territories must do so in accordance with "non-structural separation" rules. These rules have required that our long distance affiliates (i) maintain separate books of account, (ii) not own transmission or switching facilities jointly with the local exchange affiliate and (iii) acquire any services from their affiliated LEC at tariffed rates, terms and conditions. Our Northern New England operations, which are Bell Operating Companies, are subject to a different set of rules allowing them to offer both long distance and local exchange services in the regions where they operate as Bell Operating Companies, subject to certain conditions with which we comply. Not all of our competitors must comply with these requirements. Therefore, these requirements may put us at a competitive disadvantage in the interstate long distance market.

Other Obligations under Federal Law

We are subject to a number of other statutory and regulatory obligations at the federal level. For example, the Communications Assistance for Law Enforcement Act ("CALEA") requires telecommunications carriers to modify equipment, facilities and services to allow for authorized electronic surveillance based on either industry or FCC standards. Under CALEA and other federal laws, we may be required to provide law enforcement officials with call records, content or call identifying information, pursuant to an appropriate warrant or subpoena.

The FCC limits how carriers may use or disclose customer proprietary network information ("CPNI") and specifies what carriers must do to safeguard CPNI provided to third parties. Congress, as well as some state legislatures, has enacted legislation to criminalize the unauthorized sale of call detail records and to further restrict the manner in which carriers make such information available.

In addition, if we seek in the future to acquire companies that hold FCC authorizations, in most instances we will be required to seek approval from the FCC prior to completing those acquisitions. The FCC has broad authority to condition, modify, cancel, terminate or revoke operating authority for failure to comply with applicable federal laws or rules, regulations and policies of the FCC. Fines or other penalties also may be imposed for such violations.

Broadband and Internet Regulation

A Verizon petition asking the FCC to forbear from applying common carrier regulation to certain broadband services sold primarily to larger business customers was deemed granted by operation of law on March 19, 2006 when the FCC did not deny the petition by the statutory deadline. The U.S. Court of Appeals for the District of Columbia Circuit has rejected a challenge to that outcome. The forbearance deemed granted to Verizon has been extended to our Northern New England operations by the FCC in its order approving the Merger. In October 2007, the FCC stated its intention to define more precisely the scope of forbearance obtained by Verizon, but it has not yet done so. On October 4, 2011, tw telecom, inc. filed a petition with the FCC asking it to reverse the forbearance granted to Verizon by operation of law on March 19, 2006. Comments have been filed in this proceeding by FairPoint and other parties. Following reply comments, the FCC may issue an order on this petition. A similar petition was filed by a group of competing LECs on November 2, 2012 and has been put out for comment by the FCC. We do not know how this will be resolved or the impact it may have on us if the FCC reversed, eliminated or modified the forbearance granted to Verizon in 2006.

The FCC has imposed particular regulatory obligations on IP-based telephony. It has concluded that interconnected VoIP providers must comply with CALEA; provide enhanced 911 emergency calling capabilities; comply with certain disability access requirements; comply with the FCC's rules protecting CPNI; provide local number portability; and pay regulatory fees. Recently there have also been discussions among policy makers concerning "net neutrality." The FCC released a statement of net neutrality principles favoring customer choice of content and services available over broadband networks. It has adopted open Internet access rules applicable to all broadband Internet access providers. On January 14, 2014, the DC Circuit Court of Appeals (the "DC Court") vacated portions of the FCC’s December 21, 2010 Report and Order in the Manner of Preserving the Open Internet (GN Docket 09-191) (the "Open Internet Order"). In its decision, the DC Court vacated the FCC's anti-blocking and anti-discrimination rule related to Internet Service Providers, finding the FCC had exceeded its authority in the Open Internet Order. We do not anticipate that this decision will impact our provision of Internet services; however, we cannot predict what impact, if any, this may have on our business, financial condition, results of operations, liquidity and/or the market price of our outstanding securities. The FCC has preempted some state regulation of VoIP.

Additional rules and regulations may be extended to the Internet and to broadband Internet access. A variety of proposals are under consideration in both federal and state legislative and regulatory bodies. For example, the FCC is considering reclassifying the transport component of broadband service as a "telecommunications service." In addition, there has been increasing activity to increase regulatory oversight of third party billing on telephone bills and on cyber-security. We cannot predict whether the outcome of pending or future proceedings will prove beneficial or detrimental to our competitive position and our regulatory compliance costs.

State Regulation

The local service rates and intrastate access charges of substantially all of our telephone subsidiaries are regulated by state regulatory commissions which typically have the power to grant and revoke authority for authorizing companies to provide communications services. In some states, our intrastate long distance rates are also subject to state regulation. States typically regulate local service quality, billing practices and other aspects of our business as well. As described above, intrastate access charges are subject to the transition plan established in the recent CAF/ICC Order.

Most state commissions have traditionally regulated LEC pricing through cost-based rate-of-return regulation. In recent years, however, state legislatures and regulatory commissions in most of the states in which our telephone companies operate have either reduced the regulation of LECs or have announced their intention to do so and we expect this trend will continue. Such relief may take the form of mandatory deregulation of particular services or rates; or it may consist of optional alternative forms of regulation ("AFOR"), which may involve price caps or other flexible pricing arrangements. Some of these deregulatory measures are described in greater detail below. We believe that some AFOR plans allow us to offer new and competitive services faster than under the traditional regulatory regimes.

The following summary addresses significant regulatory actions by regulatory agencies in Maine, New Hampshire and Vermont that have affected or are expected to affect our Northern New England operations:

Regulatory Conditions to the Merger, as Modified in Connection with the Plan. As required by the Plan, as a condition precedent to the effectiveness of the Plan, we were required to obtain certain regulatory approvals, including approvals from the public utility commissions in Maine and New Hampshire and the VPSB. In connection with the Chapter 11 Cases, we negotiated with representatives of the state regulatory authorities in Maine, New Hampshire and Vermont with respect to (i) certain regulatory approvals relating to the Chapter 11 Cases and the Plan and (ii) certain changes impacting the Merger Orders. We agreed to regulatory settlements with the representatives for each of Maine, New Hampshire and Vermont regarding modification of each state's Merger Order (each a "Regulatory Settlement", and collectively, the "Regulatory Settlements") which were then approved by the regulatory authorities in those states. The Regulatory Settlements addressed service quality issues, broadband build-out requirements and certain other financial and management commitments. The commitments agreed to in these proceedings have, for the most part, been completed, are nearly completed, or are no longer applicable.

New Hampshire Regulatory Settlement. On July 7, 2010, the NHPUC provided its approvals for New Hampshire, including the Regulatory Settlement for New Hampshire (the "New Hampshire Regulatory Settlement"). Among other requirements, the New Hampshire Regulatory Settlement imposed obligations on us related to, among other things, retail service quality, broadband expansion, capital expenditure commitments and various management commitments. Nearly all of these obligations were eliminated statutorily during fiscal year 2012 upon the New Hampshire legislature's enactment of SB 48. *See* "—Regulatory Environment— Legislation for Maine and New Hampshire" herein for more information on SB 48.

With respect to our broadband expansion obligations, in conjunction with the Merger, we agreed to adhere to the broadband coverage commitments prescribed in the NHPUC’s Order No. 24,823 in Docket DT 07-011; however, the final broadband build-out commitments were extended to March 31, 2013. In an order dated January 29, 2013, NHPUC approved our proposal to utilize certain SQI penalties incurred during fiscal years 2009 and 2010 for further broadband expansion and to extend the broadband build-out commitment deadline to December 31, 2013. Northern New England Telephone Operations LLC advised the NHPUC of the achievement of the broadband build-out commitment by December 31, 2013 on January 21, 2014.

Maine Regulatory Settlement. On July 6, 2010, the MPUC provided its approvals for Maine, including the Regulatory Settlement for Maine (the "Maine Regulatory Settlement"). Among other requirements, the Maine Regulatory Settlement imposed obligations on us related to, among other things, retail service quality, broadband expansion and various management commitments.

Several of these requirements were eliminated statutorily during 2012 upon the enactment of the Maine Deregulation Legislation or expired in August 2013 concurrent with the expiration of our AFOR in Maine. *See* "—Regulatory Environment—Legislation for Maine and New Hampshire" herein for more information on the Maine Deregulation Legislation.

In addition, as noted above, in exchange for the termination of the show cause proceeding, the MPUC's stipulation order requires us in Maine to achieve 85% broadband addressability by August 14, 2013 and 87% by April 14, 2014. Northern New England Telephone Operations LLC advised the MPUC on August 14, 2013 of the achievement of 85% broadband addressability by August 14, 2013. We believe we are currently on track to achieve 87% broadband addressability by the April 14, 2014 deadline. If the April 2014 commitment is not met, we must achieve 90% broadband addressability in Maine by May 14, 2015. In calculating these percentages, there is no speed requirement for lines served by the legacy ATM network. Additionally, we must (1) contribute $100,000 to ConnectME upon completion of the broadband commitment and (2) spend an additional $11 million during the period from January 1, 2014 to December 31, 2016 on broadband facilities and services that benefit small businesses and residences in Maine. The money may be spent in our sole discretion although the expenditure must include 30 central office overlays. Central office overlays are defined as the addition of equipment to an existing central office that will enable customers served by that central office with loop lengths of up to 22,000 feet from that central office and who purchase our internet service to have the ability to access our Ethernet-based internet service.

Vermont Regulatory Settlement. On December 23, 2010, the VPSB provided its approvals in Vermont, including the Regulatory Settlement for Vermont (the "Vermont Regulatory Settlement"). Among other requirements, the Vermont Regulatory Settlement imposed obligations on us related to, among other things, broadband expansion, capital expenditure commitments and various management commitments. Many of these requirements have been satisfied or are no longer applicable.

Local Government Authorizations

We may be required to obtain from municipal authorities permits for street opening and construction or operating franchises to install and expand facilities in certain communities. If we more fully enter into video markets, municipal franchises may be required for us to operate as a cable television provider. Some of these franchises may require the payment of franchise fees. We have historically obtained municipal franchises as required. In some areas, we will not need to obtain permits or franchises because the subcontractors or electric utilities with which we will have contracts already possess the requisite authorizations to construct or expand our networks. In association with the American Recovery and Reinvestment Act of 2009 and other federal government programs, there may be an increase in our requirements associated with road move requests pursuant to new funding for roads. It is not certain whether funding will be available to us for this potential obligation.

Environmental Regulations

Like all other local telephone companies, our 32 LECs are subject to federal, state and local laws and regulations governing the use, storage, disposal of and exposure to hazardous materials, the release of pollutants into the environment and the remediation of contamination. As an owner of real property, we could be subject to environmental laws that impose liability for the entire cost of cleanup at contaminated sites, regardless of fault or the lawfulness of the activity that resulted in contamination. We believe, however, that our operations are in substantial compliance with applicable environmental laws and regulations.

Other Information

We make available free of charge on our website, *www.fairpoint.com*, our reports on Forms 10-K, 10-Q and 8-K and all amendments to such reports as soon as reasonably practical after we file such material with, or furnish such material to, the SEC. Our filings with the SEC are available to the public over the Internet at the SEC's website at *www.sec.gov*, or at the SEC's Public Reference Room located at 100 F Street, N.E., Washington, DC 20549. Please call the SEC at 1-800-SEC-0330 for further information on the operation of the Public Reference Room.

ITEM 1A. RISK FACTORS

Any of the following risks could materially adversely affect our business, consolidated financial condition, results of operations, liquidity and/or the market price of our outstanding securities. The risks described below are not the only risks facing us. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial may also materially and adversely affect our business operations.

Risks Related to our Common Stock and Our Substantial Indebtedness

The price of our common stock may be volatile and may fluctuate substantially, which could negatively affect holders of our common stock.

The market price of our common stock may fluctuate widely as a result of various factors including, but not limited to, period-to-period fluctuations in our operating results, the volume of sales of our common stock, the limited number of holders of our common stock and the resulting limited liquidity in our common stock, dilution, developments in the communications industry, the failure of securities analysts to cover our common stock, changes in financial estimates by securities analysts, short interests in our common stock, competitive factors, regulatory developments, economic and other external factors, general market conditions and market conditions affecting the stock of communications companies in general. 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 our 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, which could have a material adverse impact on our business, financial condition, results of operations, liquidity and/or the market price of our common stock.

We have substantial indebtedness which could have a negative impact on our financing options and liquidity position and prevent us from fulfilling our obligations under our indebtedness.

As of December 31, 2013, our total gross indebtedness was approximately $937.1 million (including approximately $1.9 million of capital leases) and $59.1 million was available for borrowing under the New Revolving Facility, net of $15.9 million outstanding letters of credit. Our substantial indebtedness could have important consequences including:

- making it more difficult for us to satisfy our obligations under our debt agreements;
- requiring us to dedicate a significant portion of our cash flow from operations to paying the principal of and interest on our indebtedness, thereby limiting the availability of our cash flow to fund future capital expenditures, working capital and other corporate purposes;
- limiting our ability to obtain additional financing in the future for working capital, capital expenditures or acquisitions;
- limiting the amount of dividends we could pay to our stockholders;
- limiting our ability to refinance our indebtedness on terms acceptable to us or at all;
- restricting us from making strategic acquisitions or causing us to make non-strategic divestitures;
- limiting our flexibility in planning for, or reacting to, changes in our business and the communications industry generally;
- placing us at a competitive disadvantage compared with competitors that have a less significant debt burden; and
- making us more vulnerable to economic downturns and limiting our ability to withstand competitive pressures.

Our ability to continue to fund our debt service requirements and to reduce our indebtedness may be affected by general economic, financial market, competitive, legislative and regulatory factors, among other things. An inability to fund our debt service requirements, reduce our indebtedness or satisfy debt covenant requirements could have a material adverse effect on our business, financial condition, results of operations, liquidity and/or the market price of our outstanding securities.

In addition, our borrowings under our New Credit Agreement bear interest at a variable rate based on a British Bankers Association LIBOR rate ("LIBOR"), subject to a floor of 1.25%. We have entered into interest rate swap agreements that effectively fix the interest rate on a combined notional amount of $170.0 million of these borrowings; however, these agreements are not effective until September 30, 2015. If the relevant LIBOR increases above the level of the floor, the interest payments on our variable rate debt will increase and adversely affect our cash flow. Conversely, while LIBOR remains below 1.25%, we may incur interest costs above market rates. While our interest rate swap agreements and any future agreements we enter into may limit our exposure to higher interest rates, these agreements may not offer complete protection from this risk.

Despite our substantial indebtedness level, we may be able to incur significant additional amounts of debt, which could further exacerbate the risks associated with our substantial indebtedness.

We may be able to incur substantial additional indebtedness in the future. Although the Indenture and our New Credit Agreement contain restrictions on the incurrence of additional indebtedness, these restrictions are subject to a number of significant qualifications and exceptions and, under certain circumstances, the amount of indebtedness that could be incurred in compliance with these restrictions could be substantial. If new debt is added to our existing debt levels, the related risks that we now face could increase.

To operate and expand our business, service our indebtedness and meet our other cash needs, we will require a significant amount of cash, which may not be available to us. We may not be able to generate sufficient cash to repay or refinance our indebtedness at maturity or otherwise or to fund our operations, and may be forced to take other actions to satisfy such obligations, which may not be successful.

Our ability to make payments on, or repay or refinance, our indebtedness, to fund our operations and to fund planned capital expenditures, unanticipated capital expenditures and other cash needs will depend largely upon our financial condition and operating performance, including our ability to execute on our business plan. Our future operating performance, to a certain extent, is subject to general economic, financial, competitive, legislative, regulatory and other factors, such as any pension contributions required by the Employee Retirement Income Security Act of 1974, as amended ("ERISA"), that are beyond our control. For example, the minimum amount of pension contributions that we are required to make, which may be substantial, are determined under the rules of the Employee Retirement Income Security Act of 1974, as amended (“ERISA”).

Our ability to borrow additional amounts, including under our New Revolving Facility, if necessary to meet our cash needs, will depend on our ability to remain in compliance with the covenants contained in our debt agreements. If our operating results are not adequate to meet the financial ratio tests in our debt agreements or if we are unable to generate sufficient cash to service our debt requirements, we will be required to restructure or refinance our existing indebtedness, which we may not be able to accomplish under such circumstances on commercially reasonable terms or at all. If we are unable to refinance our debt or obtain new financing under these circumstances, we may have to consider other options, including:

- sales of assets;
- reduction or delay of capital expenditures, strategic acquisitions, investments and alliances;
- obtaining additional capital; or
- negotiations with our lenders to restructure or refinance the applicable debt.

Our ability to restructure or refinance our indebtedness may depend on the condition of the capital markets and our financial condition at such time, and any such restructuring and/or refinancing may come with higher interest rates and more onerous covenants. These alternative measures may not be successful and may not permit us to meet our scheduled debt service obligations.

An inability to generate sufficient cash from operations to repay or refinance our indebtedness at maturity or otherwise or to fund our operations could have a material adverse impact on our business, financial condition, results of operations, liquidity and/or the market price of our outstanding securities.

Our debt agreements contain restrictions that limit our flexibility in operating our business.

The New Credit Agreement and the Indenture contain various covenants that limit our ability to engage in specified types of transactions. These covenants, under certain circumstances, limit us and our restricted subsidiaries' ability to, among other things:

- incur additional indebtedness;
- pay dividends on, repurchase or make distributions in respect of our capital stock or make other restricted payments;
- make certain investments;
- sell certain assets;
- create or incur liens;
- enter into sale and leaseback transactions;
- consolidate, merge, sell or otherwise dispose of all or substantially all of our assets; and
- enter into certain transactions with our affiliates.

A breach of any of these covenants could result in a default under the New Credit Agreement or the Indenture. In addition, any debt agreements we enter into in the future may further limit our ability to enter into certain types of transactions. A breach of any of these covenants could result in a default under one or more of these agreements, including as a result of cross default provisions. Such default may allow the creditors to accelerate the related debt and may result in the acceleration of any other debt to which a cross-acceleration or cross- default provision applies.

In addition, the restrictive covenants in the New Credit Agreement require us to maintain specified financial ratios and to satisfy other financial condition tests. Our ability to meet those financial ratios and tests depends on our ongoing financial and operating performance, which, in turn, is subject to economic conditions and to financial, market, and competitive factors, many of which are beyond our control. See “Item 7. Management's Discussion and Analysis of Financial Conditions and Results of

Operations - Liquidity and Capital Resources" included elsewhere in this Annual Report for more information regarding the New Credit Agreement and the Indenture.

FairPoint Communications is a holding company and depends upon the cash flows of its operating subsidiaries to service its indebtedness and meet its other cash flow needs.

FairPoint Communications is a holding company and conducts no operations. Accordingly, its cash flow and its ability to make payments on, or repay or refinance, its indebtedness and to fund planned capital expenditures and other cash needs will depend largely upon the cash flows of its operating subsidiaries and the distribution of cash by those subsidiaries to it in the form of repayment of loans, dividends, management fees or otherwise. Distributions to FairPoint Communications from its subsidiaries will depend on their respective operating results and will be subject to restrictions under, among other things:

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

FairPoint Communications' subsidiaries have no obligation, contingent or otherwise, to make funds available, whether in the form of loans, dividends or other distributions, to it. Any inability to receive distributions from its subsidiaries could have a material adverse impact on our business, financial condition, results of operations, liquidity and/or the market price of our outstanding securities.

Limitations on our ability to use NOL carryforwards, and other factors requiring us to pay cash to satisfy our tax liabilities in future periods, may affect our ability to fund our operations, make capital expenditures and repay our indebtedness.

Effective December 31, 2011, our NOLs were substantially reduced by the recognition of gains on the discharge of certain debt pursuant to the Plan. In addition, our emergence from bankruptcy resulted in an ownership change for federal income tax purposes under Section 382 of the Internal Revenue Code of 1986, as amended (the "Code"). This followed previous ownership changes resulting from our initial public offering in February 2005, which resulted in an "ownership change" within the meaning of the United States federal income tax laws addressing NOL carryforwards, alternative minimum tax credits and other similar tax attributes. Moreover, the Merger with Spinco resulted in a further ownership change for these purposes. As a result of these ownership changes, there are specific limitations on our ability to use these NOL carryforwards and other tax attributes from periods prior to our emergence from bankruptcy. Furthermore, additional limitations on the use of NOLs could arise in the future if a 50% or more change in ownership as defined under the Code were to occur. Although we do not expect that these limitations will materially affect our United States federal and state income tax liability in the near term, it is possible in the future if we were to generate taxable income in excess of the limitation on usage of NOL carryforwards that these limitations could limit our ability to utilize the carryforwards and, therefore, result in an increase in our United States federal and state income tax payments over the amount we otherwise would have, had we not experienced an ownership change. In addition, in the future we will be required to pay cash to satisfy our tax liabilities when all of our NOL carryforwards have been used or have expired. Limitations on our usage of NOL carryforwards, and other factors requiring us to pay cash taxes, would reduce the amount available to fund our operations, make capital expenditures and service our indebtedness in the future, which could have a material adverse impact on our business, financial condition, results of operations, liquidity and/or the market price of our outstanding securities.

Concentration of ownership among stockholders may prevent new investors from influencing significant corporate decisions.

Based on Schedules 13D and 13G filed by the respective holders, as of February 28, 2014, there are some institutional holders who own 5% or more of our outstanding common stock. As a result, these stockholders may be able to exercise significant control over all matters requiring stockholder approval, including the election of directors, amendment of our certificate of incorporation and approval of corporate transactions and could gain significant control over our management and policies as a result thereof.

Future sales or the possibility of future sales of a substantial amount of our common stock may depress the price of our common stock.

Future sales, or the availability for sale in the public market, of substantial amounts of our common stock could adversely affect the prevailing market price of our common stock and could impair our ability to raise capital through future sales of equity securities. The market price of our common stock could decline as a result of sales of a large number of shares of our common stock in the market 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 us to obtain additional capital by selling equity securities in the future at a time and at a price that we deem appropriate.

As of February 28, 2014, we had 26,681,024 shares of common stock outstanding. All such shares are freely traded except for any shares of our common stock that may be held or acquired by our directors, executive officers, employee insiders and other affiliates, as that term is defined in the Securities Act, which will be restricted securities under the Securities Act. Restricted securities may not be sold in the public market unless the sale is registered under the Securities Act or an exemption from registration is available. In addition, Angelo Gordon & Co., L.P. ("Angelo Gordon") and entities advised by Angelo Gordon have certain registration rights with respect to the common stock they hold or may acquire in the future.

We may issue shares of our common stock, or other securities, from time to time as consideration for future acquisitions and investments. In the event any such acquisition or investment is significant, the number of shares of our common stock, or the number or aggregate principal amount, as the case may be, of other securities that we may issue may in turn be significant. We may also grant registration rights covering these shares or other securities in connection with any such acquisitions and investments.

We do not expect to pay any cash dividends for the foreseeable future.

We do not anticipate that we will pay any cash dividends on shares of our common stock for the foreseeable future. Because we are a holding company, our ability to pay dividends depends on our receipt of dividends from our operating subsidiaries. Any determination to pay dividends in the future will be at the discretion of our board of directors and will depend upon limitations imposed by results of operations, financial condition, contractual restrictions contained in the New Credit Agreement and the Indenture or indebtedness we may incur in the future, restrictions imposed by applicable law and other factors our board of directors may then deem relevant.

Risks Related to Our Business

We provide services to customers over access lines, and since we have been losing access lines, if our efforts to mitigate this decline and transition to alternative revenue is not successful, our business, financial condition, results of operations, liquidity and/or the market price of our outstanding securities may be materially adversely affected.

We, along with the telecommunications industry in general, have experienced a decline in access lines and network access revenues and will be further unfavorably impacted in the long-term by the FCC's recent CAF/ICC Order on intercarrier compensation. *See* "—Risks Relating to Our Regulatory Environment" for specific risks associated with the impact of regulatory reform. We generate revenue primarily by delivering voice and data services over access lines. During the years ended December 31, 2013 and 2012, we experienced access line equivalent loss of 4.9% and 5.0%, respectively, on a pro forma basis after giving effect to the divestiture of our operations in Idaho. These losses resulted mainly from competition, including competition from bundled offerings by cable companies, the use of alternate technologies, including wireless, as well as challenging economic conditions and the offering of DSL services.

We expect to continue to experience net access line losses. Our strategy of providing broadband and advanced data services, such as Ethernet over fiber and copper plant, may not be sufficient to offset the revenue impact of continued voice access line loss. Our inability to retain access lines and successfully offset such losses with alternative revenue could adversely affect our business, financial condition, results of operations, liquidity and/or the market price of our outstanding securities.

We provide access services to other communications companies, and if these companies were to find alternative means of providing services, become insolvent or experience substantial financial difficulties, our business, financial condition, results of operations, liquidity and/or the market price of our outstanding securities may be materially adversely affected.

We originate and terminate calls on behalf of long distance carriers and other interexchange carriers over our network in exchange for payment of switched access charges. Interstate and intrastate access charges represented approximately 34.3% of our total revenues during the twelve months ended December 31, 2013. Terminating switched access rates are scheduled to decline under the FCC's recent CAF/ICC Order. *See* "—Risks Relating to Our Regulatory Environment" for specific risks associated with the impact of regulatory reform. We may not be successful in offsetting these declines through regulatory replacement mechanisms or operational means. Further, should one or more of these carriers find alternative means of providing services, loss of revenues from these carriers could have a material adverse impact on our business, financial condition, results of operations, liquidity and/or the market price of our outstanding securities. In addition, should one or more of the carriers that we do business with become insolvent or experience substantial financial difficulties, our inability to timely collect access charges from them could have a material adverse impact on our business, financial condition, results of operations, liquidity and/or the market price of our outstanding securities.

We are subject to competition that may materially adversely impact our business, financial condition, results of operations, liquidity and/or the market price of our outstanding securities.

We face intense competition from a variety of sources for our voice, network transport and Internet services in nearly all of the areas we now serve. Regulations and technology change quickly in the communications industry and changes in these factors historically have had, and in the future may have, a significant impact on competitive dynamics. In most of our service areas, we currently face competition from wireless carriers for voice services and increasingly for Internet services. As technology and economies of scale have improved, competition from wireless carriers has increased and is expected to further increase. We also face increasing competition from wireline and cable television companies for our voice and Internet services. We estimate that most of the customers that we serve have access to voice, network transport and Internet services through a cable television company. Wireline and cable television companies have the ability to bundle their services, which has and is expected to continue to intensify the competition we face from these providers. VoIP providers, Internet service providers and satellite companies also compete with our services and such competition has increased and is expected to continue to increase in the future. In addition, many of our competitors have access to a larger workforce and have substantially greater name-brand recognition and financial, technological and other resources including, in the case of cable television providers, free advertising on their video services.

In addition, consolidation and strategic alliances within the communications industry and the development of new technologies have had and may continue to have an effect on our competitive position. We 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 our business, financial condition, results of operations, liquidity and/or the market price of our outstanding securities.

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

- loss of customers (given the likelihood that when we lose customers for local service, we will also lose them for all related services);
- reduced network usage by existing customers who may use alternative providers for voice and data services;
- reductions in the prices we charge to meet competition; and
- increases in marketing expenditures and discount and promotional campaigns to incent customers to choose our services.

Price increases or price retention for certain products and customers may result in an acceleration of access line losses or an unanticipated decline in our growth-oriented products, which may materially adversely affect our business, financial condition, results of operations, liquidity and/or the market price of our outstanding securities.

From time to time, we expect to implement price increases for certain products and customers. Price increases may include those resulting from regulatory direction to reduce intercarrier compensation as well as price increases to increase end user billing. Although we intend for the price increase to provide a net revenue benefit, it is possible that customers will disconnect at a faster rate than they otherwise would have, which could negate the benefit of the price increase. Additionally, a weaker economic environment can result in increased demand by our customers for price reductions at the same or better level of service. In some of our more competitive markets, we may need to offer more favorable terms to our customers for contract renewal, which could result in reduced profitability. Despite continuous efforts by our sales force to retain customers, we cannot provide assurance that we will be able to renew customers dissatisfied with our contract renewal terms.

We 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 new service introductions occur frequently in the communications industry and industry standards evolve continually, including but not limited to a transition in the industry from primarily voice products to data services. We cannot predict the effect of these changes on our competitive position, profitability or the industry. Technological developments may reduce the competitiveness of our 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 our existing services. If we fail to adapt successfully to technological changes or obsolescence or fail to obtain access to important new technologies, we could lose customers and be limited in our ability to attract new customers and sell new services to our existing customers, which could have a material adverse impact on our business, financial condition, results of operations, liquidity and/or the market price of our outstanding securities.

The geographic concentration of our operations in Maine, New Hampshire and Vermont make our business susceptible to local economic and regulatory conditions and consumer trends, and an economic downturn, recession or unfavorable regulatory action in any of those states may materially adversely affect our business, financial condition, results of operations, liquidity and/or the market price of our outstanding securities.

Our service territory spans 17 states. As of December 31, 2013, we had approximately 1.2 million access line equivalents, of which approximately 85% are located in Maine, New Hampshire and Vermont (including certain of our Telecom Group service companies). As a result of this geographic concentration, our financial results will depend significantly upon economic conditions and consumer trends in these markets. From January 1, 2013 through December 31, 2013, our operations in Maine, New Hampshire and Vermont (including certain of our Telecom Group service companies) experienced a 5.0% decline in total access line equivalents in service, compared to a decline of 5.3% for the remainder of our operations during the same period on a pro forma basis after giving effect to the divestiture of our operations in Idaho. Deterioration in economic conditions in any of these markets could result in a further decrease in demand for our services and resulting loss of access line equivalents which could have a material adverse effect on our business, financial condition, results of operations, liquidity and/or the market price of our outstanding securities.

In certain areas of our service territory, the need for our services is seasonal (including either winter or summer), which may result in revenue fluctuations quarter over quarter. While we attempt to forestall seasonal disconnects or seasonal suspends, some revenue fluctuations continue to occur and once a customer disconnects or suspends, he or she may not return as a customer.

In addition, if state regulators in Maine, New Hampshire or Vermont were to take an action that is adverse to our operations in those states, we could suffer greater harm from that action by state regulators than we would from action in other states because of the concentration of our operations in those states.

We may need to defend ourselves against claims that we infringe upon others' intellectual property rights or may need to seek third-party licenses to expand our product offerings.

From time to time, we receive notices from third parties or are named in lawsuits filed by third parties claiming we have infringed or are infringing upon their intellectual property rights. We may receive similar notices or be involved in similar lawsuits in the future. Responding to these claims may require us to expend significant time and money defending our use of affected technology, may require us to enter into licensing agreements requiring license payments that we would not otherwise have to pay or may require us to pay damages. If we are required to take one or more of these actions, our operating expenses may increase. In addition, in responding to these claims, we may be required to stop selling or redesign one or more of our products or services, which could significantly and adversely affect the way we conduct business.

Similarly, from time to time, we may need to obtain the right to use certain patents or other intellectual property from third parties to be able to offer new products and services. If we cannot license or otherwise obtain rights to use any required technology from a third party on reasonable terms, our ability to offer new products and services may be restricted, made more costly or delayed.

We depend on third party providers for certain of our billing functions, IT services, including network support and improvements, and for the provision of our long distance and bandwidth services.

We have agreements with outside service providers to perform a portion of our billing functions and for our provision of long distance and bandwidth services. We also rely on certain third parties for IT services, including network support and improvements.

If these service providers are unable to adequately perform such services or if one of them experiences a significant degradation or failure with respect to such services, it could result in disruptions in our billing, IT systems and/or our long distance and bandwidth services. Furthermore, if these agreements are terminated for any reason, we may be unable to find an alternative service provider in a timely manner or on terms acceptable to us, and may be unable ourselves to perform the services they provide.

With respect to the agreements governing our long distance and bandwidth services, these agreements are based, in part, on our estimate of future supply and demand and may contain minimum volume commitments. If we overestimate demand, we may be forced to pay for services we do not need. If we underestimate demand, we 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, we may not be able to meet this demand. In addition, if we cannot meet any minimum volume commitments, we may be subject to underutilization charges, termination charges or rate increases.

If any of the foregoing events occur with respect to our third-party providers, our business, financial condition, results of operations, liquidity and/or the market price of our outstanding securities could be materially adversely affected.

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

To be successful, we will need to continue to provide our customers with reliable and uninterrupted service over our expanded network. Disruptions in our service could occur as a result of events that are beyond our control. Some of the risks to our network and infrastructure include:

- physical damage to our transmission network including poles, cable and access lines;
- widespread power surges or outages;
- software defects in critical systems;
- capacity limitations resulting from changes in our customers' usage patterns; and
- damage intentionally inflicted upon the network or our other infrastructure.

From time to time, in the ordinary course of business, we have experienced and in the future may experience short disruptions in our service due to factors such as cable damage, inclement weather and service failures of our third-party service providers. We could experience more significant disruptions in the future. In addition, certain portions of our network may lack adequate redundancy to allow for expedient recovery of service to affected customers. Disruptions may cause interruptions in service or reduced capacity for customers, either of which could cause us to lose customers and incur expenses, which could have a material adverse impact on our business, financial condition, results of operations, liquidity and/or the market price of our outstanding securities.

Any failure or inadequacy of our IT infrastructure could harm our business.

A major failure or inadequacy of our IT infrastructure could harm our business. The capacity, reliability and security of our internal IT hardware and software infrastructure are important to the operation of our current and future business, which would suffer in the event of major system failures. Our inability to expand or upgrade our IT hardware and software infrastructure could have adverse consequences, which could include the delayed implementation of new service offerings, increased acquisition integration costs, service or billing interruptions, the issuance of service quality credits, and the diversion of development resources. If any of the foregoing events occur with respect to our IT infrastructure, our business, financial condition, results of operations, liquidity and/or the market price of our outstanding securities could be materially adversely affected.

A cyber-attack that bypasses our IT and/or network security systems causing an IT and/or network security breach may lead to unauthorized use or disabling of our network, theft of customer data, unauthorized use or publication of our intellectual property and/or confidential business information and could harm our competitive position or otherwise adversely affect our business.

Attempts by others to gain unauthorized access to organizations' IT systems or network elements are becoming more sophisticated and are sometimes successful. These attempts include covertly introducing malware to companies' computers and networks, impersonating authorized users, or "hacking" into systems. We seek to detect and investigate all security incidents and to prevent their recurrence, but, in some cases, we might be unaware of an incident or its magnitude and effect. Significant network security failures could result in the theft, loss, damage, unauthorized use or publication of our intellectual property and/or confidential business information; the theft, loss, damage, unauthorized use or publication of our customers' personally identifiable information, intellectual property and/or confidential business information; the unauthorized use or disabling of our network elements; or damage to our reputation among customers and the public. These consequences could harm our competitive position, subject us to additional regulatory scrutiny, expose us to litigation, reduce the value of our investment in research and development and other strategic initiatives or otherwise adversely affect our business. To the extent that any security breach results in inappropriate disclosure of our customers' or licensees' confidential information, we may incur liability as a result.

Natural catastrophes or terrorism may damage our network or adversely affect the financial markets.

A major earthquake, hurricane, tornado, flood, fire, terrorist attack, cyber-attack or other similar disruption could damage our network, network operations centers, call centers, data centers, central offices, corporate headquarters or other facilities. Such an event could interrupt our services, adversely affect service quality, overwhelm customer support and ultimately harm our business and reputation. Although we have implemented measures that are designed to mitigate the effects of such events, we cannot predict all of the potential impacts of such events. We maintain insurance coverage for some of these events; however, the potential liabilities associated with these events could exceed the insurance coverage we maintain. Our inability to operate our networks or operate key systems as a result of such events, even for a limited period of time, may result in significant expenses or loss of customers and associated revenue.

Even if the major event does not directly impact us, these events could more broadly cause consumer confidence and spending to decrease or result in increased volatility in the United States and world financial markets and economy, which would adversely affect our business.

Because our post-emergence consolidated financial statements reflect fresh start accounting adjustments made upon emergence from bankruptcy and because of the effects of the transactions that became effective pursuant to the Plan, financial information in our post-emergence financial statements is not comparable to our financial information from prior periods, including certain statements contained herein.

Upon our emergence from the Chapter 11 bankruptcy proceedings, we adopted fresh start accounting in accordance with guidance under the applicable reorganization accounting rules, pursuant to which our reorganization value was allocated to our assets in conformity with guidance requiring use of the purchase method of accounting for business combinations. In addition to fresh start accounting, our consolidated financial statements reflect all effects of the transactions contemplated by the Plan. Therefore, our consolidated statements of financial position and consolidated statements of operations subsequent to the Effective Date are not comparable in many respects to our consolidated statements of financial position and consolidated statements of operations for periods prior to the Effective Date.

Our actual operating results may differ significantly from our guidance.

From time to time, we have released and may continue to release guidance regarding our future performance that represents our management's best estimates as of the date the guidance is provided. This guidance, which consists of forward-looking statements, is prepared by our management and is qualified by, and subject to, the assumptions and the other information contained or referred to in the release. Our guidance is not prepared with a view toward compliance with the published guidelines of the American Institute of Certified Public Accountants, and neither our independent registered public accounting firm nor any other independent expert or outside party compiles or examines the guidance and, accordingly, no such person expresses any opinion or any other form of assurance with respect thereto.

Guidance is based upon a number of assumptions and estimates that, while presented with numerical specificity, are inherently subject to significant business, economic and competitive uncertainties and contingencies, many of which are beyond our control and are based upon specific assumptions with respect to future business decisions, some of which will change. We generally state possible outcomes as high and low ranges which are intended to provide a sensitivity analysis as variables are changed but are not intended to represent our actual results which could fall outside of the suggested ranges. The principal reason that we release this data is to provide a basis for our management to discuss our business outlook with analysts and investors. Notwithstanding this, we do not accept any responsibility for any projections or reports published by any such outside analysts or investors.

Guidance is necessarily speculative in nature, and it can be expected that some or all of the assumptions or the guidance furnished by us will not materialize or will vary significantly from actual results. Accordingly, our guidance is only an estimate of what management believes is realizable as of the date the guidance is provided. Actual results may differ from the guidance and the differences may be material. Investors should also recognize that the reliability of any forecasted financial data diminishes the farther in the future that the data is forecast. In light of the foregoing, users of this guidance are urged to put the guidance in context and not to place undue reliance on any such guidance.

Any inability to successfully implement our operating strategy or the occurrence of any of the events or circumstances discussed therein could result in the actual operating results being different than the guidance, and such differences may be material.

Our success will depend on our ability to attract and retain qualified management and other personnel.

Our success depends upon the talents and efforts of our senior management team. The loss of any member of our 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 our business, financial condition, results of operations, liquidity and/or the market price of our outstanding securities.

Our ability to successfully manage reductions in our workforce could have a material adverse impact on our results of operations.

Reductions in our workforce could adversely impact our ability to operate effectively and, therefore, could adversely impact our customer service, result in higher regulatory penalties and/or reduce our ability to achieve our operational goals.

A significant portion of our workforce is represented by labor unions and therefore subject to collective bargaining agreements, two of which, covering approximately 1,800 employees, expire in August 2014. If we are unable to renegotiate these agreements prior to expiration, employees could engage in strikes or other collective behaviors, which could materially adversely impact our business, financial condition, results of operations, liquidity and/or the market price of our outstanding securities.

As of December 31, 2013, 2,017 of our 3,171 employees were covered by 14 collective bargaining agreements. Our agreements, which include no strike provisions, with the IBEW and the CWA in Northern New England cover approximately 1,800 employees in the aggregate and expire in August 2014. If we are unable to negotiate successor agreements, covered employees could strike or engage in other collective behaviors. If unionized workers were to engage in a strike, we could experience a significant disruption of our operations or higher ongoing labor costs, either of which could have a material adverse effect on our business, financial condition, results of operations, liquidity and/or the market price of our outstanding securities. Future renegotiation of these and other labor agreements or the provisions of such labor agreements could adversely impact our service reliability and significantly increase our costs for healthcare, pension plans, wages and other benefits, which could have a material adverse impact on our business, financial condition, results of operations, liquidity and/or the market price of our outstanding securities.

The amount we are required to contribute to our qualified pension plans and post-retirement healthcare plans is impacted by several factors that are beyond our control and changes in those factors may result in a significant increase in future cash contributions.

We sponsor two qualified defined benefit pension plans covering certain employees that will provide them benefit payments, if eligible, after their retirement. These qualified pension plans are subject to funding requirements determined under ERISA and the Code. Required pension contributions may be impacted by several factors, including fluctuations in the discount rate used to calculate the funding target, the performance of the pension asset portfolio, the number of retirees who elect to receive lump sum distributions, if available, and the demographics of plan participants. Fluctuations or adverse changes in any of these factors are beyond our control and may diminish the funded status of our pension plans thereby significantly increasing the contributions we are required to make under ERISA and the Code.

Certain pension plan participants have the option to elect to receive their accrued vested benefit in the form of a lump sum payment. As the discount rates used to calculate lump sum payments are currently significantly lower than the discount rate used to calculate the actuarial liabilities in these pension plans, the value of a lump sum payment exceeds the actuarial liability for the participant, which creates an actuarial loss to us when paid. As such, a lump sum payment depletes the plan's assets more than the corresponding reduction in the plan's liability, which thereby reduces the funded status of the plans. If a significant number of eligible participants retire and elect to receive their accrued vested benefit in the form of a lump sum payment, which is beyond our control, the qualified pension plan covering these participants may experience a significant reduction in its funded status, which could materially increase future required contributions.

In addition, in our Northern New England operations a dispute exists concerning the required funding level of the pension plan that covers employees subject to our collective bargaining agreements. This dispute may require resolution either by labor arbitration or by litigation in federal court. Were the IBEW to prevail in such arbitration or litigation, contributions to such plan may be accelerated and be greater than the minimum required contributions otherwise applicable under ERISA and the Code.

During the year ended December 31, 2013, we experienced actual returns on qualified pension plan assets totaling approximately 11.5%. The actuarially-determined funded status of our pension plans is dependent on the market value of the assets held by each plan. As such, a significant decline in the market value of the pension plans' assets could result in us having to make additional contributions to these plans.

Legislation enacted in 2012 changed the method for determining the discount rate used for calculating a qualified pension plan's unfunded liability for ERISA and Code purposes. There are no assurances of any future legislation to provide similar relief. *See* "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations-Liquidity and Capital Resources-Pension Contributions and Post-Retirement Healthcare Plan Expenditures" included elsewhere in this Annual Report.

We also sponsor two post-retirement healthcare plans for certain employees that provide medical and dental benefits to these employees after their retirement, and in some instances to their spouses and families. The level of contributions required from us under these plans is dependent on the level of health services used by eligible retirees and the costs of those services, both of which are beyond our control. Inflation in medical and dental costs in the future will increase future contributions. One of the plans is collectively-bargained and the extent to which post-retirement benefits will be offered to future retirees will be contingent on negotiations with the unions for successor collective bargaining agreements, which would go into effect on or after August 4, 2014. As a result of these factors and as the number of eligible retirees continues to increase, the contributions we are required to make to these plans may also increase.

Increasing cash requirements to fund benefits under our qualified pension and post-retirement healthcare plans may impact our liquidity position and limit our operational flexibility. These future cash requirements could have a material adverse impact on our business, financial condition, results of operations, liquidity and/or the market price of our outstanding securities.

Our long-lived assets and non-amortizable intangible assets may become impaired in the future.

At December 31, 2013, in addition to our net property, plant and equipment of $1,301.3 million, we have net amortizable intangible assets of $66.7 million and a non-amortizable intangible asset of $39.2 million. Amortizable long-lived assets must be reviewed for impairment whenever indicators of impairment exist. Non-amortizable long-lived assets are required to be reviewed for impairment on an annual basis or more frequently whenever indicators of impairment exist. Indicators of impairment could include, but are not limited to:

- an inability to perform at levels that were forecasted;
- a permanent decline in market capitalization;
- implementation of restructuring plans;
- changes in industry trends; and/or
- unfavorable changes in our capital structure, cost of debt, interest rates or capital expenditures levels.

Situations such as these could result in an impairment that would require a material non-cash charge to our results of operations and could have a material adverse effect on our consolidated results of operations.

Our operations require substantial capital expenditures.

We require significant capital expenditures to maintain, upgrade and enhance our network facilities and operations. While we have historically been able to fund capital expenditures from cash generated from operations and borrowings under our revolving facility, the other risk factors described in this section could materially reduce cash available from operations or significantly increase our capital expenditure requirements, and these outcomes may result in our inability to fund the necessary level of capital expenditures to maintain, upgrade or enhance our network. This could adversely affect our business.

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

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

Risks Relating to Our Regulatory Environment

We are subject to significant regulations that could change in a manner adverse to us.

We operate in a heavily regulated industry. Laws and regulations applicable to us and our 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 us:

Risk of loss or reduction of network access charge revenues . A portion of our revenues comes from intrastate and interstate network access charges, which are paid to us by interexchange carriers for originating and terminating telecommunications traffic. Through 2011, our revenues also included various forms of high-cost USF support payments. Starting in 2012, these forms of universal service funding were replaced by CAF. See "Item 1. Business—Regulatory Environment" included elsewhere in this Annual Report.

In the CAF/ICC Order, the FCC replaced all existing USF funding for price cap carriers with CAF funding. The amount of CAF funding that will be available to us has not been determined nor have the specific obligations that would be associated with such funding. We risk significant reductions in the amount of CAF funding that will be made available to us compared to current CAF Phase I frozen support. The specific obligations that will be associated with future CAF funding have not been determined and we risk not being able to accept CAF funding if the obligations exceed the funding. The CAF/ICC Order fundamentally reforms the ICC system that governs how communications companies bill one another for terminating traffic, gradually phasing out these charges. Additional reforms have been proposed. The reforms adopted by the FCC in its order will significantly change 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. Regulatory developments of this type could materially adversely affect our business, financial condition, results of operations, liquidity and/or the market price of our outstanding securities.

Risk of re-regulation of wholesale network services provided to retail and wholesale customers. Pursuant to forbearance from the regulation of high-speed interstate services that was deemed granted to Verizon in 2006 and transferred to FairPoint by the FCC in its order approving the Merger, we offer high-speed interstate services on a deregulated basis. The FCC has initiated a proceeding to investigate potential changes to the regulation of special access services. Several parties filed petitions in 2011 and 2012 asking the FCC to reverse the 2006 forbearance granted to Verizon. The FCC has issued a comprehensive data request to gather granular information from all providers of special access-like high speed services, with this data request likely to be due later in 2014. The purpose of the data request is to provide the FCC with information that can be used to evaluate competition for special access-like services. It is not clear what actions, if any, the FCC will take in these proceedings. Orders resulting from these proceedings could adversely affect pricing and regulation of these services.

The FCC also is considering changes to its rules governing who contributes to the USF support mechanisms, and on what basis. Any changes in the FCC's rules governing the manner in which entities contribute to the USF could have a material adverse effect on our business, financial condition, results of operations, liquidity and/or the market price of our outstanding securities.

Risk of loss of statutory exemption from burdensome interconnection rules imposed on ILECs **.** Our rural LECs generally are exempt from the more burdensome requirements of the 1996 Act governing the rights of competitors to interconnect to ILEC 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 our rural LECs, we may be required to provide UNEs to competitors in our rural telephone company areas. As a result, more competitors could enter our traditional telephone markets than are currently expected, which could have a material adverse effect on our business, financial condition, results of operations, liquidity and/or the market price of our outstanding securities.

Risks posed by costs of regulatory compliance **.** Regulations create significant compliance and administrative costs for us. Our subsidiaries that provide intrastate services are generally subject to certification, tariff filing and other ongoing regulatory requirements by state regulators. Our interstate and intrastate access services are currently provided in accordance with tariffs filed with the FCC and state regulatory authorities, respectively. Challenges in the future to our tariffs by regulators or third parties or delays in obtaining certifications and regulatory approvals could cause us to incur substantial legal and administrative expenses, and, if successful, these challenges could adversely affect the rates that we are able to charge our customers, which could have a material adverse effect on our business, financial condition, results of operations, liquidity and/or the market price of our outstanding securities.

In addition, our non-rural operations are subject to regulations not applicable to our rural operations, including but not limited to requirements relating to interconnection, the provision of UNEs, and the other market-opening obligations set forth in the 1996 Act. In approving the transfer of authorizations to us in the Merger, the FCC determined that our non-rural operations would be subject to the same regulatory requirements that currently apply to Bell Operating Companies. The FCC also stated that we would be entitled to the same regulatory relief that Verizon New England had obtained in the region. Any changes made in connection with these obligations or relief could increase our non-rural operations' costs or otherwise have a material adverse effect on our business, financial condition, results of operations, liquidity and/or the market price of our outstanding securities. Moreover, we cannot predict the precise manner in which the FCC will apply the Bell Operating Company regulatory framework to us.

Our business also may be affected by legislation and regulation imposing new or greater obligations related to open Internet access, assisting law enforcement, bolstering homeland security, pole attachments, minimizing environmental impacts, protecting customer privacy or addressing other issues that affect our business. We cannot predict whether or to what extent the FCC might modify its rules or what compliance with those new rules might cost. Similarly, we cannot predict whether or to what extent federal or state legislators or regulators might impose new network access, security, environmental or other obligations on our business.

Risk of losses from rate reduction**.** Our LECs that operate pursuant to intrastate 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 our business, financial condition, results of operations, liquidity and/or the market price of our outstanding securities.

For a more thorough discussion of the regulatory issues that may affect our business, *see* "Item 1. Business—Regulatory Environment" included elsewhere in this Annual Report.

ITEM 1B. UNRESOLVED STAFF COMMENTS

Not applicable.

ITEM 2. PROPERTIES

We own or lease all of the properties material to our business. Our headquarters is located in Charlotte, North Carolina, in a leased facility. We also have administrative offices, maintenance facilities, rolling stock, central office and remote switching platforms, and transport and distribution network faciliti es in each of the 17 states in which we operate our LECs. Our administrative and maintenance facilities are generally located in or near the commu nities served by our LECs and our central offices are often within the administrative building. Auxiliary battery or other non-utility power sources are located at each central office to provide uninterrupted service in the event of an electrical power failure. Transport and distribution network facilities include fiber optic backbone and copper wire distribution facilities, which connect customers to remote switch locations or to the central office and to points of presence or interconnection with the long distance carriers. These facilities are located on land pursuant to permits, easements or other agreements. Our rolling stock includes service vehicles, construction equipment and other required maintenance equipment.

We believe each of our respective properties is suitable and adequate for the business conducted thereon, is being appropriately used consistent with past practice and has sufficient capacity for the present intended purposes.

ITEM 3. LEGAL PROCEEDINGS

From time to time, we are involved in litigation and regulatory proceedings arising out of our operations. Management believes that we are not currently a party to any legal or regulatory proceedings, the adverse outcome of which, individually or in the aggregate, would have a material adverse effect on our business, financial position or results of operations. Notwithstanding that we emerged from Chapter 11 protection on the Effective Date, one of the Chapter 11 Cases, Northern New England Telephone Operations LLC (Case No. 09-16365), remains open.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

General Market Information, Holders and Dividends

Our common stock is listed on the NASDAQ under the symbol "FRP". Prior to January 25, 2011, the common stock of the Predecessor Company traded (i) on the Pink Sheets under the symbol "FRCMQ" from October 26, 2009 to January 24, 2011 and (ii) on the New York Stock Exchange under the symbol "FRP" from our initial public offering on February 4, 2005 until October 23, 2009. All of the common stock of the Predecessor Company was extinguished in accordance with the Plan on January 24, 2011. Our existing common stock began trading on the NASDAQ on January 25, 2011.

The following table sets forth, for the periods indicated, the high and low sales prices per share of our common stock as reported on the NASDAQ. The stock price information is based on published financial sources.

Year Ended December 31, 2013	High	Low
First quarter	$ 10.04	$ 6.96
Second quarter	9.12	6.77
Third quarter	9.99	7.99
Fourth quarter	11.71	8.92

Year Ended December 31, 2012	High	Low
First quarter	$ 5.15	$ 3.58
Second quarter	6.50	3.66
Third quarter	8.20	5.25
Fourth quarter	8.15	6.80

No dividends were declared on any class of our common stock during the fiscal years 2013 or 2012. We currently do not anticipate that we will pay any cash dividends on shares of our common stock for the foreseeable future. Any determination to pay dividends in the future will be at the discretion of our board of directors and will depend upon limitations imposed by our results of operations, financial condition, contractual restrictions relating to indebtedness, restrictions imposed by applicable law and other factors our board of directors may deem relevant at the time.

As of February 28, 2014, there were approximately 132 holders of record of our common stock.

Performance Graph

Set forth below is a line graph comparing the cumulative total stockholder return on shares of our common stock against (i) the cumulative total return of all companies listed on the S&P 500 and (ii) the cumulative total return of the S&P 500 Telecom sector. The period compared commences on January 25, 2011, the date our common stock began trading on the NASDAQ after we emerged from Chapter 11 bankruptcy protection and ends on December 31, 2013. Because the value of the common stock of the Predecessor Company bears no relation to the value of our existing common stock, the graph below reflects only our existing common stock. This graph assumes that $100 was invested on January 25, 2011 in our common stock and in each of the market index and the sector index at the closing price for FairPoint Communications and the respective indices, and that all cash distributions were reinvested.

Comparison of Cumulative Total Return Among
FairPoint Communications, Inc., S&P 500 and S&P 500 Telecom

Securities Authorized for Issuance under Equity Compensation Plans

The table below provides information, as of the end of the most recently completed fiscal year, concerning securities authorized for issuance under our equity compensation plans. As of December 31, 2013, the FairPoint Communications, Inc. 2010 Long Term Incentive Plan (the "Long Term Incentive Plan") was the only equity compensation plan under which securities of FairPoint Communications were authorized for issuance. The Long Term Incentive Plan was approved by the Bankruptcy Court in connection with our emergence from bankruptcy. For a description of the material features of the Long Term Incentive Plan, *see* note (16) "Stock-Based Compensation" to our consolidated financial statements in "Item 8. Financial Statements and Supplementary Data" included elsewhere in this Annual Report.

Equity Compensation Plan Information

Plan Category	(a) Number of securities to be issued upon exercise of outstanding options, warrants and rights [(1)]		(b) Weighted average exercise price of outstanding options, warrants and rights	(c) Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) [(2)]
Equity compensation plans approved by our stockholders	—		N/A	—
Equity compensation plans not approved by our stockholders	1,399,123	$	16.74	972,399
Total	**1,399,123**	**$**	**16.74**	**972,399**

(1) Includes 1,399,123 options to purchase shares of common stock under the Long Term Incentive Plan.

(2) Per the Long Term Incentive Plan, if the consolidated enterprise value of the Company (as defined in the Long Term Incentive Plan) does not equal or exceed $2.3 billion on or prior to the expiration of the warrants, then the aggregate number of shares of common stock available for issuance pursuant to future awards will be automatically reduced by 310,326 shares.

Repurchase of Equity Securities

We did not repurchase any equity securities during the three months ended December 31, 2013.

ITEM 6. SELECTED FINANCIAL DATA

As of January 24, 2011, we adopted fresh start accounting in accordance with guidance under the applicable reorganization accounting rules, pursuant to which our reorganization value was allocated to our assets in conformity with guidance under the applicable accounting rules for business combinations, using the purchase method of accounting for business combinations. In addition to fresh start accounting, our consolidated financial statements reflect all effects of the transactions contemplated by the Plan. Therefore, our consolidated statements of financial position and consolidated statements of operations subsequent to January 24, 2011 are not comparable in many respects to our consolidated statements of financial position and consolidated statements of operations for periods prior to January 24, 2011. For more information regarding fresh start accounting, *see* note (4) "Reorganization Under Chapter 11" to our consolidated financial statements in "Item 8. Financial Statements and Supplementary Data" included elsewhere in this Annual Report.

The summary financial data presented below represents portions of our consolidated financial statements and are not complete. The following financial information should be read in conjunction with "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations" and our consolidated financial statements and notes thereto contained in "Item 8. Financial Statements and Supplementary Data" included elsewhere in this Annual Report. Historical results are not necessarily indicative of future performance or results of operations. Amounts are in thousands, except access lines, per share data and units.

Table of Contents

	Year Ended December 31, 2013	Year Ended December 31, 2012	Three Hundred Forty-One Days Ended December 31, 2011	Predecessor Company: Twenty-Four Days Ended January 24, 2011	Predecessor Company: Year Ended December 31, 2010	Predecessor Company: Year Ended December 31, 2009
Results of Continuing Operations:						
Revenues	$ 939,354	$ 973,649	$ 963,112	$ 66,378	$ 1,070,986	$ 1,119,090
Operating expenses, excluding impairment on intangible assets and goodwill	1,052,540	1,155,632	1,107,298	87,442	1,180,925	1,208,240
Impairment of intangible assets and goodwill	—	—	262,019	—	—	—
Loss from operations	(113,186)	(181,983)	(406,205)	(21,064)	(109,939)	(89,150)
Interest expense [1]	78,675	67,610	63,807	9,321	140,896	204,919
Gain (loss) on derivative instruments	—	—	—	—	—	12,320
Gain on early retirement of debt	—	—	—	—	—	12,357
Reorganization items income (expense) [2]	—	—	—	897,313	(41,120)	(53,018)
Net (loss) income	$ (103,494)	$ (153,294)	$ (414,945)	$ 586,907	$ (281,579)	$ (241,396)
(Loss) earnings per share from continuing operations:						
Basic	$ (3.95)	$ (5.90)	$ (16.06)	$ 6.56	$ (3.15)	$ (2.70)
Diluted	$ (3.95)	$ (5.90)	$ (16.06)	$ 6.54	$ (3.15)	$ (2.70)
Cash dividends per share	$ —	$ —	$ —	$ —	$ —	$ 0.2575
Weighted average shares outstanding:						
Basic	26,190	25,987	25,838	89,424	89,424	89,271
Diluted	26,190	25,987	25,838	89,695	89,424	89,271
Financial Position (at period end) [3]:						
Cash, excluding restricted cash [4]	$ 42,700	$ 23,203	$ 17,350	$ 10,262	$ 105,497	$ 109,355
Total assets	1,599,898	1,732,361	1,985,671	2,516,871	2,973,794	3,172,122
Total long-term debt [5]	918,122	957,000	1,000,000	1,000,000	2,520,959	2,515,446
Total stockholders' (deficit) equity	(309,196)	(317,813)	(106,143)	498,486	(587,418)	(218,427)
Operating Data (at period end):						
Access line equivalents [6]	1,208,932	1,278,434	1,346,894	N/A	1,417,290	1,545,976
Residential access lines	527,890	586,725	645,453	N/A	712,591	802,668
Business access lines	291,417	299,701	311,241	N/A	327,812	357,605
Wholesale access lines [7]	59,859	65,641	76,065	N/A	87,142	97,161
Broadband subscribers	329,766	326,367	314,135	N/A	289,745	288,542
Summary of Cash Flows:						
Net cash provided by (used in) operating activities	$ 171,085	$ 192,775	$ 170,099	$ (81,091)	$ 191,626	$ 150,323
Net cash used in investing activities	(95,951)	(144,307)	(162,850)	(12,477)	(197,268)	(177,391)
Net cash (used in) provided by financing activities	(55,637)	(42,615)	(161)	(1,667)	1,784	66,098
Capital expenditures	128,298	145,066	163,648	12,477	197,795	178,752

(1) Upon the October 26, 2009 filing of the Chapter 11 Cases and through January 24, 2011, in accordance with guidance under the applicable reorganization accounting rules, we ceased to accrue interest expense on the Pre-Petition Notes and our interest rate swap agreements as it was unlikely that such interest expense would be paid or would become an allowed priority secured or unsecured claim. We continued to accrue interest expense on the Pre-Petition Credit Facility, as such interest was considered an allowed claim pursuant to the Plan. All pre-petition debt was terminated on January 24, 2011. *See* "Item 7. Management's Discussion and Analysis—Liquidity and Capital Resources—Debt" included elsewhere in this Annual Report for further information on our pre-petition debt. We have accrued interest in normal course subsequent to January 24, 2011.

(2) Reorganization items represent income or expense amounts that have been recognized as a direct result of the Chapter 11 Cases, prior to January 24, 2011. On January 24, 2011, we emerged from Chapter 11 protection and substantially consummated our reorganization through a series of transactions contemplated by the Plan. Reorganization items income during the 24 days ended January 24, 2011 includes adjustments made upon application of the Plan and adoption of fresh start accounting, in addition to certain other items, more fully described in note (4) "Reorganization Under Chapter 11" to our consolidated financial statements in "Item 8. Financial Statements and Supplementary Data" included elsewhere in this Annual Report.

(3) The balance sheet data reflected at January 24, 2011 is representative of the Company after application of the Plan and the adoption of fresh start accounting.

(4) Cash excludes aggregate restricted cash of $1.2 million, $7.5 million, $25.1 million, $4.1 million and $4.0 million at December 31, 2013, 2012, 2011, 2010 and 2009, respectively, and $86.8 million at January 24, 2011.

(5) Long-term debt at December 31, 2010 and 2009 is included in Liabilities subject to compromise in our consolidated balance sheets.

(6) Total access line equivalents include voice access lines and broadband subscribers, which include DSL, wireless broadband, cable modem and fiber-to-the-premise.

(7) Wholesale access lines include residential and business resale lines and unbundled network element platform ("UNEP") lines.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion should be read in conjunction with our consolidated financial statements and the notes thereto in "Item 8. Financial Statements and Supplementary Data" included elsewhere in this Annual Report. The following discussion includes certain forward-looking statements. For a discussion of important factors, including the continuing development of our business, actions of regulatory authorities and competitors and other factors which could cause actual results to differ materially from the results referred to in the forward-looking statements, *see* "Item 1A. Risk Factors" and "Cautionary Note Regarding Forward-Looking Statements" included elsewhere in this Annual Report. Our discussion and analysis of financial condition and results of operations are presented in the following sections:

- Overview
- Executive Summary
- February 2013 Refinancing
- Regulatory and Legislative
- Fresh Start Accounting
- Basis of Presentation
- Results of Operations
- Non-GAAP Financial Measures
- Liquidity and Capital Resources
- Off-Balance Sheet Arrangements
- Summary of Contractual Obligations
- Critical Accounting Policies and Estimates
- New Accounting Standards
- Inflation

Overview

We are a leading provider of advanced communications services to business, wholesale and residential customers within our service territories. We offer our customers a suite of advanced data services such as Ethernet, high capacity data transport and other IP-based services over our Next Generation Network in addition to Internet access, HSD, and local and long distance voice services. Our service territory spans 17 states where we are the incumbent communications provider primarily serving rural communities and small urban markets. Many of our LECs have served their respective communities for more than 80 years. We operate with approximately 1.2 million access line equivalents, including approximately 330,000 broadband subscribers, in service as of December 31, 2013.

We own and operate our Next Generation Network, an extensive, next generation fiber network with more than 16,000 miles of fiber optic cable, in Maine, New Hampshire and Vermont, giving us capacity to support more HSD services and extend our fiber reach into more communities across the region. The IP/MPLS network architecture of our Next Generation Network allows us to provide Ethernet, transport and other IP-based services with the highest level of reliability at a lower cost of service. This fiber network also supplies critical infrastructure for wireless carriers serving the region as their bandwidth needs increase, driven by mobile data from smartphones, tablets and other wireless devices. As of December 31, 2013, we provide cellular transport, also known as backhaul, through over 1,300 mobile Ethernet backhaul connections. We have fiber connectivity to more than 1,000 cellular telecommunications towers in our service footprint.

Executive Summary

Our executive management team is focused on our 'four pillar' strategy of improving operations, changing the regulatory environment, transforming and growing revenue and aligning our human resources. Our mission is to provide reliable communications services with outstanding customer support across the 17 states we serve. During fiscal year 2013, we continued to make substantial progress on our 'four pillar' business strategy to continue our transformation from a traditional telephone company into a provider of advanced communications services.

Access lines have historically been an important element of our business. Communications companies, including FairPoint, continue to experience a decline in access lines due to increased competition from CLECs, wireless carriers and cable television operators, increased availability of alternative communications services, including wireless and VoIP, and challenging economic conditions. Our objective is to transform our revenue by continuing to add advanced data products and services such as Ethernet, high capacity data transport and other IP-based services over our Next Generation Network in addition to HSD services, to minimize our dependence on voice access lines. We will continue our efforts to retain customers to mitigate the loss of voice access lines through bundled packages, including video and other value added services.

Over the past few years, we have made significant capital investments in our Next Generation Network to expand our business service offerings to meet the growing data needs of our customers and to increase broadband speeds and capacity in our consumer markets. We have also focused our sales and marketing efforts on these advanced data solutions. Specifically, within the last couple of years, we built and launched high capacity Ethernet services to allow us to meet the capacity needs of our business customers as well as supply high capacity infrastructure to our wholesale customers. These advanced data services are our flagship product and are laying the foundation not only for new business but also for additional IP-based voice services in the future.

Additionally, we believe the bandwidth needs of cellular backhaul will continue to grow with the continued adoption of bandwidth-intensive technology. We believe that our extensive fiber network, with over 16,000 miles of fiber optic cable, including over 1,000 cellular telecommunications towers currently served with fiber, puts us in an excellent position to grow our revenue base as demand for cellular backhaul services increases. We expect to see demand increase on existing fiber connected towers where we would provision or expand mobile Ethernet backhaul connections or construct new fiber routes to cellular telecommunications towers.

Coupled with recent regulatory reform in the states of Maine, New Hampshire and Vermont that will serve to promote fair competition among communication services providers in the region, we believe that there is a significant organic growth opportunity within the business and wholesale markets given our extensive fiber network and IP-based product suite, combined with our relatively low market share in these areas.

Our collective bargaining agreements with the IBEW and the CWA in Northern New England cover approximately 1,800 employees in the aggregate and expire in August 2014. We expect to begin good faith negotiations for successor collective bargaining agreements with our labor unions well prior to expiration. We cannot predict the outcome of these negotiations at this time. *See* "Item 1A. Risk Factors—A significant portion of our workforce is represented by labor unions and therefore subject to collective bargaining agreements, two of which, covering approximately 1,800 employees, expire in August 2014. If we are unable to renegotiate these agreements prior to expiration, employees could engage in strikes or other collective behaviors, which could materially adversely impact our business, financial condition, results of operations, liquidity and/or the market price of our outstanding securities."

February 2013 Refinancing

On the Refinancing Closing Date, we completed the Refinancing of the Old Credit Agreement Loans. In connection with the Refinancing, we (i) issued $300.0 million of Notes in a private offering exempt from registration under the Securities Act pursuant to the Indenture that we entered into on the Refinancing Closing Date and (ii) entered into the New Credit Agreement, dated as of the Refinancing Closing Date. The New Credit Agreement provides for the $75.0 million New Revolving Facility, including a sub-facility for the issuance of up to $40.0 million in letters of credit and the $640.0 million New Term Loan. On the Refinancing Closing Date, we used the proceeds of the Notes offering, together with $640.0 million of borrowings under the New Term Loan and cash on hand to (i) repay principal of $946.5 million outstanding on the Old Term Loan, plus $7.7 million of accrued interest and (ii) pay $32.6 million of fees, expenses and other costs related to the Refinancing. For further information regarding the New Credit Agreement, the Notes and our repayment of the Old Credit Agreement Loans, *see* "—Liquidity and Capital Resources" herein and note (8) "Long-term Debt" to our consolidated financial statements in "Item 8. Financial Statements and Supplementary Data" included elsewhere in this Annual Report.

Regulatory and Legislative

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

We are required to comply with the Communications Act which requires, among other things, that telecommunication carriers offer telecommunication services at just and reasonable rates and on terms and conditions that are not unreasonably discriminatory. The Communications Act also contains requirements intended to promote competition in the provision of local services and lead to deregulation as markets become more competitive.

For a detailed description of the federal and state regulatory environment in which we operate and the FCC's recently promulgated CAF/ICC Order and other recent regulatory changes, as well as the effects and potential effects of such regulation on us, *see* "Item 1. Business—Regulatory Environment" included elsewhere in this Annual Report. We anticipate that the significant changes in both federal and state regulation described therein will not have a material impact in 2014. However, in the long run, we are uncertain of the ultimate impact as federal and state regulation continues to evolve.

Fresh Start Accounting

On October 26, 2009, we filed the Chapter 11 Cases. On January 13, 2011, the Bankruptcy Court entered the Confirmation Order, which confirmed the Plan.

On the Effective Date, we substantially consummated our reorganization through a series of transactions contemplated by the Plan and the Plan became effective pursuant to its terms.

As of the Effective Date, we were required to adopt fresh start accounting in accordance with guidance under the applicable reorganization accounting rules, pursuant to which our reorganization value, which represents the fair value of an entity before considering liabilities and approximates the amount a willing buyer would pay for the assets of the entity immediately after the reorganization, was allocated to the fair value of assets in conformity with guidance under the applicable accounting rules for business combinations, using the purchase method of accounting for business combinations. The amount remaining after allocation of the reorganization value to the fair value of identified tangible and intangible assets was reflected as goodwill, which was subject to periodic evaluation for impairment and was later determined to be completely impaired at September 30, 2011. In addition to fresh start accounting, our consolidated financial statements after the Effective Date reflect all effects of the transactions contemplated by the Plan. Therefore, our consolidated statements of financial position and consolidated statements of operations subsequent to the Effective Date are not comparable in many respects to our consolidated statements of financial position and consolidated statements of operations for periods prior to the Effective Date.

Basis of Presentation

We view our business of providing data, voice and communications services to business, wholesale and residential customers as one reportable segment as defined in the Segment Reporting Topic of the Accounting Standards Codification ("ASC").

Beginning in the second quarter of 2012, we reclassified certain revenues from voice services revenues to data and Internet services revenues to more accurately reflect the underlying services provided. In addition, certain computer and customer service expenses have been reclassified from selling, general and administrative expense, excluding depreciation and amortization, to cost of services and sales, excluding depreciation and amortization, for the years ended December 31, 2012 and December 31, 2011 to be consistent with the current period presentation.

Results of Operations

The following table sets forth our consolidated operating results reflected in our consolidated statements of operations for the year ended December 31, 2013, the year ended December 31, 2012 and the combined results of the twenty-four days ended January 24, 2011 and the three hundred forty-one days ended December 31, 2011. We believe the comparison of combined results of the year ended December 31, 2011 provides the best analysis of our results of operations. While the adoption of fresh start accounting presents the results of operations of a new reporting entity, the only consolidated statement of operations items impacted by the reorganization under Chapter 11 are depreciation and amortization expense, interest expense and reorganization items. Those effects of fresh start accounting are discussed in more detail in the respective sections below.

The year-to-year comparisons of financial results are not necessarily indicative of future results (in thousands, except for access line equivalents):

			Combined		Predecessor Company
	Year Ended December 31, 2013	**Year Ended December 31, 2012**	**Year Ended December 31, 2011**	**Three Hundred Forty-One Days Ended December 31, 2011**	**Twenty-Four Days Ended January 24, 2011**
Revenues:					
Voice services	$ 405,159	$ 446,126	$ 483,766	$ 451,212	$ 32,554
Access	321,812	336,000	369,336	346,313	23,023
Data and Internet services	161,423	142,911	127,323	119,363	7,960
Other	50,960	48,612	49,065	46,224	2,841
Total revenues	**939,354**	**973,649**	**1,029,490**	**963,112**	**66,378**
Operating expenses:					
Cost of services and sales, excluding depreciation and amortization	439,217	450,441	493,499	453,673	39,826
Selling, general and administrative expense, excluding depreciation and amortization	331,656	332,243	343,067	316,966	26,101
Depreciation and amortization	282,438	376,614	358,406	336,891	21,515
Reorganization related income	(771)	(3,666)	(232)	(232)	—
Impairment of intangible assets and goodwill	—	—	262,019	262,019	—
Total operating expenses	**1,052,540**	**1,155,632**	**1,456,759**	**1,369,317**	**87,442**
Loss from operations	**(113,186)**	**(181,983)**	**(427,269)**	**(406,205)**	**(21,064)**
Other income (expense):					
Interest expense	(78,675)	(67,610)	(73,128)	(63,807)	(9,321)
Loss on debt refinancing	(6,787)	—	—	—	—
Other	4,863	739	1,659	1,791	(132)
Total other expense	(80,599)	(66,871)	(71,469)	(62,016)	(9,453)
Loss before reorganization items and income taxes	**(193,785)**	**(248,854)**	**(498,738)**	**(468,221)**	**(30,517)**
Reorganization items	—	—	897,313	—	897,313
(Loss) income before income taxes	**(193,785)**	**(248,854)**	**398,575**	**(468,221)**	**866,796**
Income tax benefit (expense)	90,291	95,560	(226,613)	53,276	(279,889)
(Loss) income before discontinued operations	**(103,494)**	**(153,294)**	**171,962**	**(414,945)**	**586,907**
Gain on sale of discontinued operations, net of taxes	10,044	—	—	—	—
Net (loss) income	**$ (93,450)**	**$ (153,294)**	**$ 171,962**	**$ (414,945)**	**$ 586,907**
Access line equivalents:					
Residential	527,890	586,725	645,453		
Business	291,417	299,701	311,241		
Wholesale	59,859	65,641	76,065		
Total voice access lines	**879,166**	**952,067**	**1,032,759**		
Broadband subscribers	329,766	326,367	314,135		
Total access line equivalents (1)	**1,208,932**	**1,278,434**	**1,346,894**		

(1) On January 31, 2013, we completed the sale of our operations in Idaho which accounted for 5,604 and 5,536 access line equivalents as of December 31, 2012 and 2011, respectively.

Voice Services Revenues

We receive revenues through the provision of local calling services to business and residential customers, generally for a fixed monthly charge and service charges for special calling features. We also generate revenue through long distance services within our service areas on our network and through resale agreements with national interexchange carriers. In addition, through our wholly-owned subsidiary, FairPoint Carrier Services, Inc., we provide wholesale long distance services to communications providers that are not affiliated with us. For the years ended December 31, 2013 and 2012, voice access lines in service decreased 7.7% and 7.8% year-over-year, respectively, which directly impacts local voice services revenues and our opportunity to provide long distance services to our customers, resulting in a decrease of minutes of use. Excluding divestitures, on a pro forma basis, voice access lines in service for the years ended December 31, 2013 and 2012 would have declined 7.1% and 7.7% year-over-year, respectively. We expect the trend of decline in voice access lines in service, and thereby a decline in aggregate voice services revenue, to continue as customers are turning to the use of alternative communication services as a result of ever-increasing competition.

We were subject to retail service quality plans in the states of Maine, New Hampshire and Vermont for the years ended December 31, 2012 and 2011, pursuant to which we incurred SQI penalties resulting from any failure to meet the requirements of the respective plans. In New Hampshire, the retail service quality plan was eliminated by SB 48, which was effective August 10, 2012, thereby extinguishing our exposure to SQI penalties in that state. In Vermont, effective March 31, 2013 we were no longer subject to the retail service quality plan based on our achievement of certain retail service quality metrics. We were still subject to the retail service quality plan in Maine through July 31, 2013; however, under the Maine Deregulation Legislation enacted in August 2012, SQI penalties were eliminated starting in August 2013.

We adopted a separate performance assurance plan ("PAP") for certain services provided on a wholesale basis to CLECs in each of the states of Maine, New Hampshire and Vermont, pursuant to which we are required to issue performance credits in the event we are unable to meet the provisions of the respective PAP. Our maximum exposure to penalties under the PAPs has not been reduced by deregulation legislation in Maine and New Hampshire or by the IRP adopted in Vermont.

We receive support to supplement the amount of local service revenue received by us to ensure that basic local service rates for customers in high-cost areas are consistent with rates charged in lower cost areas. Prior to 2012, these subsidies were provided through the USF high-cost support program. Beginning in 2012, all forms of support under the USF were replaced with CAF Phase I frozen support. A portion of the CAF Phase I frozen support represents high-cost loop funding and is recorded as voice services revenue. We expect to receive the same level of CAF Phase I frozen support revenue in 2014, plus or minus small adjustments recorded during the respective quarters and adjusted for the divestiture of the Idaho operations, until the FCC completes its proceedings to adopt a CAF cost model and develop CAF Phase II for our operating areas. The FCC has announced its expectation to complete its CAF II model development, establish all obligations associated with the CAF II program, and offer support to price cap carriers by the end of 2014. If so, CAF II funding could be implemented during 2015. We cannot determine whether we will accept or refuse any funding under the CAF Phase II support programs until all obligations associated with the funding have been determined.

The following table reflects the primary drivers of year-over-year changes in voice services revenues (in millions):

	Year Ended December 31, 2013			Year Ended December 31, 2012		
		Increase (Decrease)	%		Increase (Decrease)	%
Local voice services revenues, excluding:	$	(33.5)		$	(27.5)	
Divestiture of Idaho-based operations		(2.9)			—	
(Increase) decrease in accrual of PAP penalties (1)		2.1			(1.3)	
Decrease in high-cost loop credits to customers (2)		0.8			2.7	
(Increase) decrease in accrual of SQI penalties (3)		0.3			(3.9)	
Long distance services revenues		(7.8)			(7.6)	
Total changes in voice services revenues	**$**	**(41.0)**	**(9)%**	**$**	**(37.6)**	**(8)%**

(1) During the years ended December 31, 2013, 2012 and 2011, local voice services revenues were reduced by $0.7 million, $2.8 million and $1.5 million, respectively, as a result of our failure to meet specified performance standards as defined by the provisions of the separate PAPs in Maine, New Hampshire and Vermont. In fiscal years 2012 and 2011, a majority of the penalty credits resulting from these commitments were recorded as a reduction to local voice services revenues

with a small portion recorded to access revenues. However, as our wholesale business shifts from unbundled network elements ("UNEs") to access-driven services, a majority of penalty credits have followed and are now being recorded to access revenues. We expect this trend to continue and the impact of penalty credits on voice services revenues to decrease.

(2) In 2012, the VPSB and the MPUC each approved a tariff change whereby we are no longer required to provide high-cost loop credits to customers. For the years ended December 31, 2012 and 2011, we recognized a reduction to local voice services revenues related to high-cost loop credits remitted to customers of $0.8 million and $3.5 million, respectively.

(3) During the years ended December 31, 2013, 2012 and 2011, voice services revenues were increased by $0.1 million, reduced by $0.2 million and increased by $3.7 million, respectively, by SQI penalties. In fiscal year 2011, our continued performance improvement, certain legislative and regulatory changes and the additional reversal of 2008 and 2009 SQI penalties resulted in a net increase to local voice services revenues.

Access Revenues

We receive revenues for the provision of network access through carrier Ethernet based products and legacy access products to end user customers and long distance and other competing carriers who use our local exchange facilities to provide interexchange services to their customers. Network access can be provided to carriers and end users that buy dedicated local and interexchange capacity to support their private networks (i.e. special access) or it can be derived from fixed and usage-based charges paid by carriers for access to our local network (i.e. switched access).

Carriers are migrating from legacy access products, such as DS1, DS3, frame relay, ATM and private line, to carrier Ethernet based products. These carrier Ethernet based products are more sustainable, but generally, at the outset, have lower average revenue per user than the legacy products they are replacing, resulting in a decline in access revenues. We expect the decline in access revenues to continue with customer migration; however, with the increasing need for bandwidth, including cellular backhaul, demand for carrier Ethernet based products is expected to increase over time. Our extensive fiber network with over 16,000 miles of fiber optic cable, including over 1,000 cellular telecommunications towers currently served with fiber, puts us in a position to grow our revenue base as demand for cellular backhaul and other Ethernet services expands. We expect to see demand increase on existing fiber-connected towers where we would provision or expand mobile Ethernet backhaul connections. We also construct new fiber routes to cellular telecommunications towers when the business case presents itself.

As described above, we adopted a separate PAP for certain services provided on a wholesale basis to CLECs in each of the states of Maine, New Hampshire and Vermont, pursuant to which we are required to issue performance credits in the event we are unable to meet the provisions of the respective PAP. As our wholesale business shifts from UNEs to access-driven services, a majority of penalty credits have transitioned in the same manner and are now being recorded to access revenues instead of voice services revenue. We expect this trend to continue and the impact of penalty credits to access revenues to increase. Our maximum exposure to penalties under the PAPs has not been reduced by the deregulation legislation in Maine and New Hampshire or by the IRP adopted in Vermont.

The following table reflects the primary drivers of year-over-year changes in access revenues (in millions):

	Year Ended December 31, 2013		Year Ended December 31, 2012	
	Increase (Decrease)	**%**	**Increase (Decrease)**	**%**
Carrier Ethernet services [(1)]	$ 8.3		$ 17.2	
(Increase) decrease in accrual of PAP penalties [(2)]	(3.3)		—	
Divestiture of Idaho-based operations	(3.4)		—	
Legacy access services [(3)]	(15.8)		(50.5)	
Total changes in access revenues	**$ (14.2)**	**(4)%**	**$ (33.3)**	**(9)%**

(1) We offer carrier Ethernet services throughout our market to our business and wholesale customers, which include Ethernet virtual circuit technology for cellular backhaul. As of December 31, 2013, we provide cellular transport on our Next Generation Network through over 1,300 mobile Ethernet backhaul connections, the number of which has grown significantly over the last two years.

(2) During fiscal years 2013 and 2012, access services revenues were reduced by $3.6 million and $0.3 million, respectively, as a result of our failure to meet specified performance standards as defined by the provisions of the separate PAPs in Maine, New Hampshire and Vermont. In 2012 and 2011, a majority of penalty credits were recorded to voice services revenues; therefore the impact of PAP penalties on access revenues to fiscal years 2012 and 2011 was negligible.

(3) Legacy access services include products such as DS1, DS3, frame relay, ATM and private line.

Data and Internet Services Revenues

We receive revenues from monthly recurring charges for the provision of data and Internet services to residential and business customers through DSL technology, fiber-to-the-home technology, retail Ethernet, dedicated T-1 connections, Internet dial-up, high speed cable modem and wireless broadband.

We have invested in our broadband network to extend the reach and capacity of the network to customers who did not previously have access to data and Internet products and to offer more competitive services to existing customers, including retail Ethernet products. During the years ended December 31, 2013 and 2012, we grew broadband subscribers by 1.0% and 3.9%, respectively, as penetration reached 37.5% of voice access lines at December 31, 2013 from 34.3% and 30.4% at December 31, 2012 and 2011, respectively. We expect to continue our investment in our broadband network to further grow data and Internet services revenues in the coming years.

The following table reflects the primary drivers of year-over-year changes in data and Internet services revenues (in millions):

	Year Ended December 31, 2013			Year Ended December 31, 2012		
		Increase	%		Increase	%
Retail Ethernet services [1]	$	8.9		$	8.7	
Other data and Internet technology based services [2]		9.6			6.9	
Total changes in data and Internet revenues	**$**	**18.5**	**13%**	**$**	**15.6**	**12%**

(1) Retail Ethernet services revenue is comprised of data services provided through E-LAN, E-LINE and E-DIA technology on our Next Generation Network. In the years ended December 31, 2013, 2012 and 2011, respectively, we recognized $27.7 million, $18.8 million and $10.1 million of retail Ethernet revenues from our Next Generation Network.

(2) Includes all other services such as DSL, T-1, dial-up, high speed cable modem and wireless broadband.

Other Services Revenues

We receive revenues from other services, including special purpose projects on behalf of third party requests, video services (including cable television and video-over-DSL), billing and collection, directory services, the sale and maintenance of customer premise equipment and certain other miscellaneous revenues. Other services revenues also include revenue we receive from late payment charges to end users and interexchange carriers. Due to the composition of other services revenues, it is difficult to predict future trends.

The following table reflects the primary drivers of year-over-year changes in other services revenues (in millions):

	Year Ended December 31, 2013			Year Ended December 31, 2012		
		Increase (Decrease)	%		Increase (Decrease)	%
Special purpose projects [1]	$	2.7		$	1.4	
Late payment fees [2]		(1.6)			1.0	
Other [3]		1.2			(2.9)	
Total changes in other services revenues	**$**	**2.3**	**5%**	**$**	**(0.5)**	**(1)%**

(1) Special purpose projects are completed on behalf of third party requests.

(2) Late payment fees are related to customers who have not paid their bills in a timely manner.

(3) Other revenues were primarily attributable to directory services, billing and collections and various other miscellaneous services revenues.

Cost of Services and Sales

Cost of services and sales includes the following costs directly attributable to a service or product: salaries and wages, benefits (including stock based compensation), materials and supplies, contracted services, network access and transport costs, customer provisioning costs, computer systems support and cost of products sold. Aggregate customer care costs, which include billing and service provisioning, are allocated between cost of services and sales and selling, general and administrative expenses.

We expect cost of services and sales to decrease over time as voice access lines decline and we continue to make operational improvements and align our human resources with the changing telecommunications landscape.

The following table reflects the primary drivers of year-over-year changes in cost of services and sales (in millions):

	Year Ended December 31, 2013			Year Ended December 31, 2012		
		Increase (Decrease)	%		Increase (Decrease)	%
Access expense [(1)]	$	(7.9)		$	(14.0)	
Severance expense [(2)]		3.4			(4.2)	
Employee expense [(3)]		0.2			(13.0)	
Other [(4)]		(6.9)			(11.9)	
Total changes in cost of services and sales	**$**	**(11.2)**	**(2) %**	**$**	**(43.1)**	**(9) %**

(1) Access expense continues to decrease primarily due to increased usage of our IP infrastructure, which has enabled us to significantly reduce the associated costs of utilizing other carriers.

(2) For the years ended December 31, 2013, 2012 and 2011, we recognized $5.9 million, $2.5 million and $6.7 million of severance expense, respectively, attributed to the reduction in our workforce.

(3) For the years ended December 31, 2013, 2012 and 2011, we recognized $187.3 million, $187.1 million and $200.1 million, respectively, of employee expense as cost of services and sales. Although we reduced our workforce in 2013 by approximately 120 positions, an increase in overtime expenses and a decrease in capitalized labor, associated with a reduction in labor intensive capital projects in fiscal 2013, have combined to slightly increase employee expense for fiscal 2013 compared to fiscal 2012. The decrease in employee expense for fiscal year 2012 compared to fiscal year 2011 was due to a reduction in our workforce of approximately 400 positions, many of which impacted cost of services and sales, beginning in September 2011 and continuing through the end of 2011.

(4) Other cost of services and sales has decreased primarily due to lower network expenses.

Selling, General and Administrative Expense

Selling, general and administrative ("SG&A") expense includes salaries and wages and benefits (including stock based compensation, pension and post-retirement healthcare) not directly attributable to a service or product, bad debt charges, taxes other than income, advertising and sales commission costs, customer billing, call center and information technology costs, professional service fees and rent for administrative space. We expect our SG&A expense to decrease primarily as a result of lower discount rates on our qualified pension and post-retirement healthcare obligations.

The following table reflects the primary drivers of year-over-year changes in SG&A expense (in millions):

	Year Ended December 31, 2013			Year Ended December 31, 2012		
		Increase (Decrease)	%		Increase (Decrease)	%
Pension expense [(1)]		8.4			5.6	
Post-retirement healthcare expense [(2)]		3.6			11.3	
Bad debt expense [(3)]		2.3			(14.3)	
Severance expense [(4)]		(1.7)			2.6	
Employee expense [(5)]		1.4			(11.4)	
Other [(6)]		(14.6)			(4.6)	
Total changes in SG&A expense	**$**	**(0.6)**	**— %**	**$**	**(10.8)**	**(3) %**

(1) Increases in 2013 and 2012 net periodic benefit costs for our qualified pension plans are primarily attributable to an increase in the projected benefit obligation from reductions of approximately 55 and 93 basis points in the weighted average discount rate used to value the qualified pension obligations at December 31, 2012 and December 31, 2011, respectively. The larger projected benefit obligation served to increase service cost and interest cost recognized in 2013 and 2012, respectively, when compared to the prior year. In addition, in connection with our adoption of fresh start accounting on the Effective Date, we recognized all prior unamortized gains and losses. At December 31, 2012 and 2011, we recognized actuarial losses of $49.3 million and $64.8 million, respectively which have resulted in an increase in the amount of actuarial losses being amortized in 2013 and 2012, respectively, compared to the prior year. The actuarial losses can be attributed to the decrease in discount rates and the losses incurred on payment of significant lump sums in each of those years. *See* note (11) "Employee Benefit Plans" to our consolidated financial statements in "Item

8. Financial Statements and Supplementary Data" included elsewhere in this Annual Report for further information on our company-sponsored qualified pension plans.

(2) Increases in 2013 and 2012 net periodic benefit costs for our post-retirement healthcare plans are primarily attributable to an increase in the projected benefit obligation from reductions of approximately 46 and 99 basis points in the weighted average discount rate used to value the post-retirement healthcare obligations at December 31, 2012 and December 31, 2011, respectively. The larger projected benefit obligation served to increase service cost and interest cost recognized in 2013 and 2012, respectively, when compared to the prior year. In addition, in connection with our adoption of fresh start accounting on the Effective Date, we recognized all prior unamortized gains and losses. At December 31, 2012 and 2011, we recognized actuarial losses of $42.3 million and $164.7 million, respectively which have resulted in an increase in the amount of actuarial losses being amortized in 2013 and 2012, respectively, compared to the prior year. The actuarial losses can be attributed to the decrease in discount rates. *See* note (11) "Employee Benefit Plans" to our consolidated financial statements in "Item 8. Financial Statements and Supplementary Data" included elsewhere in this Annual Report for further information on our post-retirement healthcare plans.

(3) For the years ended December 31, 2013, 2012 and 2011, we recognized $9.8 million, $7.5 million and $21.8 million of bad debt expense, respectively. In 2012, bad debt expense reflected settlements with wholesale carriers and an improvement in accounts receivable aging.

(4) For the years ended December 31, 2013, 2012 and 2011, we recognized $2.2 million, $3.9 million and $1.3 million of severance expense, respectively. In 2013 and 2012, we worked to consolidate operational functions and realign our human resources with the changing telecommunications landscape.

(5) For the years ended December 31, 2013, 2012 and 2011, we recognized $123.1 million, $122.3 million and $133.7 million, respectively, of employee expense in SG&A expense. Wages and benefits per employee were slightly higher in 2013. During the fiscal year 2012, we realized cost reductions in employee benefits and a decline in employee wages associated with our effort to consolidate operational functions and realign our human resources with the changing telecommunications landscape.

(6) Decreases in other expenses is primarily due to contracted services and operating taxes.

Depreciation and Amortization

Depreciation and amortization includes depreciation of our communications network and equipment and amortization of intangible assets. We require significant capital expenditures to maintain, upgrade and enhance our network facilities and operations. We expect to reduce our capital expenditures in the upcoming years, which will likely reduce or stabilize our depreciation expense. We expect amortization expense to remain consistent throughout the remainder of our intangible assets' useful lives.

For the years ended December 31, 2013, 2012 and 2011, we recognized $271.3 million, $365.5 million and $346.6 million of depreciation expense, respectively. We recognized $11.1 million, $11.2 million and $11.9 million of amortization expense in the years ended December 31, 2013, 2012 and 2011, respectively.

In connection with our adoption of fresh start accounting on the Effective Date, property, plant and equipment assets were revalued to their fair value, generally their appraised value after considering economic obsolescence. New remaining useful lives were established and accumulated depreciation was reset to zero.

Periodically, we review the estimated remaining useful lives of our group asset categories to address continuing changes in technology, competition and our overall reduction in capital spending and increased focus on more efficient utilization of our existing assets. In the third quarter of 2013, we conducted this review and determined that changes to the estimated remaining useful lives for certain of our asset categories were appropriate. Accordingly, as a result of the changes applied to the remaining useful lives, our depreciation expense in 2013 was approximately $37.0 million less than it would have been absent the changes.

The decrease in depreciation expense from 2012 to 2013 is due to the $37.0 million described above, as well as certain asset classes becoming fully depreciated as remaining useful lives, established with the adoption of fresh start accounting, became exhausted.

Reorganization Related Income

Reorganization related income represents income or expense amounts that have been recognized as a direct result of the Chapter 11 Cases, occurring after the Effective Date. We will continue to incur expenses associated with the Chapter 11 Cases until all such cases have been closed with the Bankruptcy Court. In addition, income may be recognized to the extent that we favorably settle outstanding claims in the claims reserve established to pay outstanding bankruptcy claims and various other bankruptcy related fees (the "Claims Reserve"). As of December 31, 2013, the Claims Reserve has a balance of $0.3 million.

Impairment of Intangible Assets and Goodwill

At September 30, 2011, as a result of the significant sustained decline in our stock price since the Effective Date, our market capitalization dropped below our book value. Signaling a possible impairment, we performed interim impairment tests on our goodwill and non-amortizable trade name. Results of these interim impairment tests required us to write off the entire balance of goodwill and write down the carrying value of the non-amortizable trade name to $39.2 million. There were no subsequent impairments.

The following table reflects the impairment charges recorded during the year ended December 31, 2011 (in millions):

	Year Ended December 31, 2011
Goodwill	$ 243.2
Non-amortizable trade name	18.8
Total impairment of intangible assets and goodwill	**$ 262.0**

Interest Expense

The following table reflects a summary of interest expense recorded during the years ended December 31, 2013, 2012 and 2011, respectively (in millions):

	Year Ended December 31, 2013	Year Ended December 31, 2012	Year Ended December 31, 2011
New Credit Agreement Loans	$ 44.1	$ —	$ —
Notes	23.0	—	—
Old Credit Agreement Loans	7.7	66.6	63.0
Pre-Petition Credit Facility	—	—	9.1
Amortization of debt issue costs	0.9	0.7	0.7
Amortization of debt discount	2.3	—	—
Other interest expense	0.7	0.3	0.3
Total interest expense	**$ 78.7**	**$ 67.6**	**$ 73.1**

Interest expense increased $11.1 million (16%) in the year ended December 31, 2013 as compared to the year ended December 31, 2012. The increase in interest expense is primarily attributable to the increase in interest rates and amortization of the debt discount and debt issuance fees related to the New Credit Agreement Loans as a result of the Refinancing, partially offset by lower weighted average long-term debt outstanding during fiscal year 2013 as compared to fiscal year 2012.

Interest on borrowings under the Old Credit Agreement Loans accrued at an annual rate equal to either LIBOR or the base rate, in each case plus an applicable margin. Generally, the Old Credit Agreement Loans accrued interest at 6.50%. During the year ended December 31, 2012, the Old Credit Agreement Loans had an outstanding weighted average balance of $987.3 million, taking into consideration $43.0 million of principal payments made on our Old Term Loan in 2012, of which $33.0 million exceeded the scheduled payments and was allocated to the final payment due at maturity. During the first half of the first quarter of 2013, the Old Credit Agreement Loans had an outstanding weighted average balance of $952.3 million, taking into consideration $10.5 million of prepayments made during that period.

On February 14, 2013, in connection with the Refinancing, we repaid the entire outstanding balance of the Old Credit Agreement Loans, issued $300.0 million aggregate principal amount of the Notes and entered into the New Credit Agreement Loans, which include the $640.0 million New Term Loan outstanding and the $75.0 million New Revolving Facility. The Notes accrue interest at a rate of 8.75% per annum. Interest on borrowings under the New Credit Agreement Loans accrues at an annual rate equal to either LIBOR or the base rate, in each case plus an applicable margin. Generally, the New Term Loan accrued interest at 7.50% during 2013. Regularly scheduled amortization payments of $1.6 million were made on the New Term Loan at the end of the second, third and fourth quarters of 2013. In addition, the New Term Loan was issued at a $19.4 million discount, which is being amortized using the effective interest method. As of December 31, 2013, we were party to interest rate swap agreements; however, since the agreements are not effective until September 30, 2015, they will have no impact on interest expense in 2013 or 2014.

Interest expense decreased $5.5 million (8%) in the year ended December 31, 2012 as compared to the year ended December 31, 2011. The decrease in 2012 interest expense is primarily attributable to the 24 days ended January 24, 2011, whereby we were subject to interest charges under the Pre-Petition Credit Facility. During the 24 days ended January 24, 2011, the Pre-Petition

Credit Facility had an outstanding balance of $2.0 billion with a weighted average interest rate of 6.94%. The Old Credit Agreement Loans during the same period of 2012 had an outstanding balance of $1.0 billion with a weighted average interest rate of 6.5%. As stated above, we paid down $43.0 million of principal payments on our Old Term Loan in 2012, of which $33.0 million exceeded the scheduled payments and was allocated to the final payment due at maturity.

For further information regarding the New Credit Agreement Loans and the Notes, *see* "—Liquidity and Capital Resources—Debt" herein and note (8) "Long-term Debt" to our consolidated financial statements in "Item 8. Financial Statements and Supplementary Data" included elsewhere in this Annual Report.

Loss on Debt Refinancing

On February 14, 2013, we completed the Refinancing and paid all amounts outstanding under the Old Credit Agreement. In connection with this Refinancing, we incurred $5.6 million in related fees and wrote off $1.2 million of debt issue costs and other prepayments related to the Old Credit Agreement.

Other Income

Other income generally includes non-operating gains and losses such as those incurred on the sale or disposal of assets. During the years ended December 31, 2013, 2012 and 2011, we recognized other income, net of other expenses, of $4.9 million, $0.7 million and $1.7 million, respectively. The increase in fiscal 2013 compared to fiscal 2012 is due to a one-time settlement.

Reorganization Items

Reorganization items represent income or expense amounts that have been recognized as a direct result of the Chapter 11 Cases, prior to the Effective Date. For details of items within Reorganization items, *see* note (4) "Reorganization Under Chapter 11—Financial Reporting in Reorganization—Reorganization Items" to our consolidated financial statements in "Item 8. Financial Statement and Supplementary Data" included elsewhere in this Annual Report.

Income Taxes

The effective income tax rate for the years ended December 31, 2013, 2012 and 2011 was 46.6% benefit, 38.4% benefit and 56.9% expense, respectively.

The effective tax rate for 2013 was primarily impacted by state taxes, as well as a decrease to the valuation allowance.

The effective tax rate for 2012 was primarily impacted by state taxes, as well as a favorable provision to return permanent adjustments, partially offset by an increase to the valuation allowance for deferred tax assets.

The effective tax rate for 2011 was primarily impacted by the impairment charge to reduce our goodwill to zero and from certain non-taxable cancellation of indebtedness income resulting from our emergence from Chapter 11 bankruptcy protection.

For 2014, our annualized effective income tax benefit rate is expected to range from 39% to 41%, excluding one-time discrete items. Changes in the relative profitability of our business, as well as recent and proposed changes to federal and state tax laws, may cause the rate to change from historical rates. *See* note (12) "Income Taxes" to our consolidated financial statements in "Item 8. Financial Statements and Supplementary Data" included elsewhere in this Annual Report for further discussion on income taxes.

Gain on Sale of Discontinued Operations, Net of Tax

On January 31, 2013, we completed the sale of our capital stock in our Idaho-based operations to Blackfoot Telecommunications Group for $30.5 million in cash. The operating results of these Idaho-based operations are immaterial and, accordingly, have not been segregated as discontinued operations for reporting purposes. A gain, before $6.7 million of income taxes, of $16.7 million was recorded upon the closing of the transaction, which is reported within discontinued operations in the consolidated statement of operations for the year ended December 31, 2013.

For details of our Idaho-based operations' operating results, *see* note (19) "Assets Held for Sale and Discontinued Operations" to our consolidated financial statements in "Item 8. Financial Statements and Supplementary Data" included elsewhere in this Annual Report.

Non-GAAP Financial Measures

We report our financial results in accordance with accounting principles generally accepted in the United States ("U.S. GAAP" or "GAAP"). The table below includes certain non-GAAP financial measures and the adjustments to the most directly comparable U.S. GAAP measure used to determine the non-GAAP measures. Management believes that the non-GAAP measures, which also exclude the effect of special items, may be useful to investors in understanding period-to-period operating performance and in identifying historical and prospective trends that may not otherwise be apparent when relying solely on U.S. GAAP financial measures. In addition, the non-GAAP measure is useful for investors because it enables them to view performance in a manner similar to the method used by the Company's management. Adjusted earnings before interest, taxes, depreciation and amortization ("EBITDA") also removes variability related to pension and post-retirement healthcare expenses. The maintenance covenants contained in the Company's credit facility are based on Consolidated EBITDA, which is consistent with the calculation of Adjusted EBITDA below.

However, the non-GAAP financial measures, as used herein, are not necessarily comparable to similarly titled measures of other companies. Furthermore, Adjusted EBITDA has limitations as an analytical tool and should not be considered in isolation from, or as an alternative to, net income or loss, operating income, cash flow or other combined income or cash flow data prepared in accordance with U.S. GAAP. Because of these limitations, Adjusted EBITDA and related ratios should not be considered as measures of discretionary cash available to invest in business growth or reduce indebtedness. The Company compensates for these limitations by relying primarily on its U.S. GAAP results and using Adjusted EBITDA only supplementally.

A reconciliation of Adjusted EBITDA to net (loss) income is provided in the table below (in thousands):

	Year Ended December 31, 2013	Year Ended December 31, 2012	Year Ended December 31, 2011
Net (loss) income	$ (93,450)	$ (153,294)	$ 171,962
Income tax expense (benefit)	(90,291)	(95,560)	226,613
Interest expense	78,675	67,610	73,128
Depreciation and amortization	282,438	376,614	358,406
Pension expense (1a)	26,221	17,809	12,185
Post-retirement healthcare expense (1a)	54,469	50,875	39,601
Compensated absences (1b)	431	329	(462)
Severance	8,150	6,380	8,006
Reorganization costs (1c)	207	1,335	21,053
Storm expenses (1d)	2,598	3,000	4,040
Other non-cash items (1e)	1,902	3,518	(651,943)
Gain on sale of discontinued operations	(10,757)	—	—
Loss on debt refinancing	6,787	—	—
All other allowed adjustments, net (1f)	(2,350)	(675)	(1,055)
Adjusted EBITDA	$ 265,030	$ 277,941	$ 261,534

(1) For purposes of calculating Adjusted EBITDA (in accordance with the definition of Consolidated EBITDA in the Company's credit agreement), the Company adjusts net (loss) income for interest, income taxes, depreciation and amortization, in addition to:

a) the add-back of aggregate pension and post-retirement healthcare expense,

b) the add-back (or subtraction) of the adjustment to the compensated absences accrual to eliminate the impact of changes in the accrual,

c) the add-back of costs related to the reorganization, including professional fees for advisors and consultants. *See* note (4) "Reorganization Under Chapter 11—Financial Reporting in Reorganization—Reorganization Items" to our consolidated financial statements in "Item 8. Financial Statement and Supplementary Data" included elsewhere in this Annual Report,

d) the add-back of costs and expenses, including those imposed by regulatory authorities, with respect to casualty events, acts of God or force majeure to the extent they are not reimbursed from proceeds of insurance,

e) the add-back of other non-cash items, except to the extent they will require a cash payment in a future period, including impairment charges, and

f) the add-back (or subtraction) of other items, including facility and office closures, labor negotiation expenses, non-cash gains/losses, non-operating dividend and interest income and other extraordinary gains/losses.

Liquidity and Capital Resources

Overview

Our current and future liquidity is greatly dependent upon our operating results. We expect that our primary sources of liquidity will be cash flow from operations, cash on hand and funds available under the New Revolving Facility. Our short-term and long-term liquidity needs arise primarily from:

(i) interest and principal payments on our indebtedness;
(ii) capital expenditures;
(iii) working capital requirements as may be needed to support and grow our business; and
(iv) contributions to our qualified pension plan and payments under our post-retirement healthcare plans.

Based on our current and anticipated levels of operations and conditions in our markets, we believe that cash on hand (including amounts available under the New Revolving Facility) as well as cash flow from operations will enable us to meet our working capital, capital expenditure, debt service and other funding requirements for at least the next 12 months. We were in compliance with the maintenance covenants contained in the Old Credit Agreement through the Refinancing Closing Date and the maintenance covenants contained in the New Credit Agreement through the end of 2013. We expect to be in compliance with the maintenance covenants contained in the New Credit Agreement for 2014.

Cash Flows

Cash and cash equivalents at December 31, 2013 totaled $42.7 million, compared to $23.2 million at December 31, 2012, excluding restricted cash of $1.2 million and $7.5 million, respectively. During fiscal 2013, cash inflows were largely associated with $30.5 million of proceeds from the sale of our Idaho-based operations and cash flows from operations of $171.1 million, a majority of which was offset by the Refinancing and $128.3 million of capital expenditures.

The following table sets forth our consolidated cash flow results reflected in our consolidated statements of cash flows (in millions):

			Combined		Predecessor Company
Net cash flows provided by (used in):	**Year Ended December 31, 2013**	**Year Ended December 31, 2012**	**Year Ended December 31, 2011**	**Three Hundred Forty-One Days Ended December 31, 2011**	**Twenty-Four Days Ended January 24, 2011**
Operating activities	$ 171.1	$ 192.8	$ 89.0	$ 170.1	$ (81.1)
Investing activities	(96.0)	(144.3)	(175.3)	(162.9)	(12.5)
Financing activities	(55.6)	(42.6)	(1.8)	(0.2)	(1.7)
Net increase (decrease) in cash	**$ 19.5**	**$ 5.9**	**$ (88.1)**	**$ 7.1**	**$ (95.2)**

Operating activities. Net cash provided by operating activities is our primary source of funds. Net cash provided by operating activities for fiscal 2013 decreased by $21.7 million compared to fiscal 2012, primarily because reduced revenue and related collections were not sufficiently offset by lower expenses. Net cash provided by operating activities for 2012 includes payment of $8.8 million in claims of the Predecessor Company, of which $3.8 million of these claims were paid using funds of the Cash Claims Reserve (as defined herein) established on January 24, 2011. Accordingly, $5.0 million of cash on hand was used to pay claims of the Predecessor Company during 2012. During 2013, only $0.2 million of cash on hand was used to pay claims. During 2013 and 2012, $0.6 million and $10.8 million of the Cash Claims Reserve was reclaimed by the Company as a source of cash on hand, respectively.

Net cash provided by operating activities for fiscal 2012 increased $103.8 million compared to fiscal 2011. The increase is primarily driven by the establishment of an $82.8 million reserve for payment of outstanding bankruptcy claims (the "Cash Claims Reserve") on the Effective Date. Net cash provided by operating activities for the year ended December 31, 2012 and the 341 days ended December 31, 2011 represent the operating activities after the Effective Date; however, they include payment of $8.8 million and $66.7 million, respectively, in claims of the Predecessor Company, of which $3.8 million and $59.9 million, respectively, of these claims were paid using funds of the Cash Claims Reserve established on the Effective Date. Accordingly, $5.0 million and $6.8 million of cash on hand was used to pay claims of the Predecessor Company during the year ended December 31, 2012 and the 341 days ended December 31, 2011, respectively.

Investing activities. Net cash used in investing activities for fiscal 2013 decreased $48.3 million compared to fiscal 2012 primarily driven by the sale of our Idaho-based operations during fiscal 2013 for $30.5 million in cash proceeds and a decrease in capital expenditures. Capital expenditures were $128.3 million, $145.1 million and $163.6 million for the years ended December 31, 2013, 2012 and 2011, respectively.

Financing activities. Net cash used in financing activities in fiscal 2013 increased $13.0 million compared to fiscal 2012 primarily attributable to the Refinancing, whereby we issued $300.0 million aggregate principal amount of the Notes, entered into the New Credit Agreement including the $640.0 million New Term Loan and used the proceeds, along with cash on hand, to repay principal of $946.5 million outstanding on the Old Term Loan and approximately $32.6 million of fees, expenses and other costs related to the Refinancing. For further information regarding the New Credit Agreement, the Notes and our repayment of the Old Credit Agreement Loan, *see* "—Debt" herein and note (8) "Long-Term Debt" to our consolidated financial statements in "Item 8. Financial Statements and Supplementary Data" included elsewhere in this Annual Report. Net cash used in financing activities in fiscal 2012 increased $40.8 million compared to fiscal 2011 largely due to the $43.0 million of principal payments on the Old Term Loan, of which $33.0 million exceeded the scheduled payments and was allocated to the final payment due at maturity.

Pension Contributions and Post-Retirement Healthcare Plan Expenditures

During the year ended December 31, 2013, we contributed $21.8 million to our Company sponsored qualified defined benefit pension plans and funded benefit payments of $3.7 million under our post-retirement healthcare plans. Contributions to our qualified defined benefit pension plans in 2013 met the minimum funding requirements under the Pension Protection Act of 2006.

Legislation enacted in 2012 changed the method for determining the discount rate used for calculating a qualified pension plan's unfunded liability for ERISA and Code purposes. This legislation included a pension funding stabilization provision which allowed pension plan sponsors to use higher interest rate assumptions when determining funded status and funding obligations. As a result, our near-term minimum required pension plan contributions have been lower than they would have been in the absence of this stabilization provision. On September 25, 2012, we elected to defer use of the higher segment rates under this legislation until the plan year beginning on January 1, 2013 solely for purposes of determining the adjusted funding target attainment percentage ("AFTAP") used to determine benefit restrictions under Section 436 of the Code.

In 2014, aggregate cash pension contributions and cash post-retirement healthcare payments are expected to be approximately $35.0 million.

Capital Expenditures

We require significant capital expenditures to maintain, upgrade and enhance our network facilities and operations. In 2013, our net capital expenditures totaled $128.3 million, compared to $145.1 million in 2012. We anticipate that we will fund future capital expenditures through cash flows from operations and cash on hand (including amounts available under the New Revolving Facility).

In 2014, capital expenditures are expected to be approximately $125.0 million.

Debt

The New Credit Agreement. In connection with the Refinancing, we entered into the New Credit Agreement, which provides for the $75.0 million New Revolving Facility, including a sub-facility for the issuance of up to $40.0 million in letters of credit, and the $640.0 million New Term Loan. The New Credit Agreement Loans replace the Old Credit Agreement Loans, which were terminated on the Refinancing Closing Date. The principal amount of the New Term Loan and commitments under the New Revolving Facility may be increased by an aggregate amount up to $200.0 million, subject to certain terms and conditions specified in the New Credit Agreement. The New Term Loan will mature on February 14, 2019 and the New Revolving Facility will mature on February 14, 2018, subject in each case to extensions pursuant to the terms of the New Credit Agreement. As of December 31, 2013, the Company had $59.1 million, net of $15.9 million of outstanding letters of credit, available for borrowing under the New Revolving Facility.

Interest Rates and Fees. Interest on borrowings under the New Credit Agreement Loans accrue at an annual rate equal to either LIBOR or the base rate, in each case plus an applicable margin. LIBOR is the per annum rate for an interest period of one, two, three or six months (at our election), with a minimum LIBOR floor of 1.25% for the New Term Loan. The base rate for any date is the per annum rate equal to the greatest of (x) the federal funds effective rate plus 0.50%, (y) the rate of interest publicly quoted from time to time by The Wall Street Journal as the United States "Prime Rate" and (z) LIBOR with an interest period of one month plus 1.00%. The applicable margin for the New Term Loan is (a) 6.25% per annum with respect to term loans bearing interest based on LIBOR or (b) 5.25% per annum with respect to term loans bearing interest based on the base rate. The applicable rate for the New Revolving Facility is, initially, (a) 5.50% with respect to revolving loans bearing interest based on LIBOR or (b)

4.50% per annum with respect to revolving loans bearing interest based on the base rate, in each case subject to adjustment based on our consolidated total leverage ratio, as defined in the New Credit Agreement. We are required to pay a quarterly letter of credit fee on the average daily amount available to be drawn under letters of credit issued under the New Revolving Facility equal to the applicable rate for revolving loans bearing interest based on LIBOR plus a fronting fee of 0.125% per annum on the average daily amount available to be drawn under such letters of credit. In addition, we are required to pay a quarterly commitment fee on the average daily unused portion of the New Revolving Facility, which is 0.50% initially, subject to reduction to 0.375% based on our consolidated total leverage ratio. In the third quarter of 2013, we entered into interest rate swap agreements with a combined notional amount of $170.0 million with three counterparties that are effective for a two year period beginning on September 30, 2015 and maturing on September 30, 2017. Each respective swap agreement requires us to pay a fixed rate of 2.665% and provides that we will receive a variable rate based on the three month LIBOR rate, subject to a minimum LIBOR floor of 1.25%. Amounts payable by or due to us will be net settled with the respective counterparties on the last business day of each fiscal quarter, commencing December 31, 2015. For further information regarding these agreements, see note (9) "Interest Rate Swap Agreements" to our consolidated financial statements in “Item 8. Financial Statements and Supplementary Data” included elsewhere in this Annual Report.

Security/Guarantors. All obligations under the New Credit Agreement, together with certain designated hedging obligations and cash management obligations, are unconditionally guaranteed on a senior secured basis by each of the Subsidiary Guarantors and secured by a first-priority lien on substantially all personal property of FairPoint Communications and the Subsidiary Guarantors, subject to certain exclusions set forth in the related security documents, pari passu with the lien securing the obligations under the Notes.

Mandatory Repayments. Commencing in the second quarter of 2013, we are required to make quarterly repayments of the New Term Loan in a principal amount equal to $1.6 million during the term of the New Credit Agreement, with such repayments being reduced based on the application of mandatory and optional prepayments of the New Term Loan made from time to time. In addition, mandatory repayments are due under the New Credit Agreement with (i) a percentage, initially equal to 50% and subject to reduction to 25% in subsequent fiscal years based on our consolidated total leverage ratio, of our excess cash flow, as defined in the New Credit Agreement, beginning with the fiscal year ending December 31, 2013, (ii) the net cash proceeds of certain asset dispositions, insurance proceeds and condemnation awards and (iii) issuances of debt not permitted to be incurred under the New Credit Agreement. Optional prepayments and mandatory prepayments resulting from the incurrence of debt not permitted to be incurred under the New Credit Agreement are required to be made at (i) 103.0% of the aggregate principal amount prepaid if such prepayment is made on or prior to February 14, 2014, (ii) 102.0% of the aggregate principal amount of the New Term Loan so prepaid if such prepayment is made after February 14, 2014, but on or prior to February 14, 2015 and (iii) 101.0% of the aggregate principal amount prepaid if such prepayment is made after February 14, 2015 and on or prior to February 14, 2016. No premium is required to be paid for prepayments made after February 14, 2016. We did not make any optional or mandatory prepayments under the New Credit Agreement, excluding mandatory quarterly repayments discussed above, during the year ended December 31, 2013. In addition, we will not be required to make an excess cash flow payment for fiscal year 2013.

Covenants. The New Credit Agreement contains customary representations and warranties and affirmative and negative covenants for a transaction of this type, including two financial maintenance covenants: (i) a consolidated interest coverage ratio and (ii) a consolidated total leverage ratio. The New Credit Agreement also contains a covenant limiting the maximum amount of capital expenditures that we and our subsidiaries may make in any fiscal year.

Events of Default. The New Credit Agreement also contains customary events of default for a transaction of this type.

The Notes. On the Refinancing Closing Date, we issued $300.0 million in aggregate principal amount of the Notes pursuant to the Indenture in a private offering exempt from registration under the Securities Act.

The terms of the Notes are governed by the Indenture. The Notes are senior secured obligations of FairPoint Communications and are guaranteed by the Subsidiary Guarantors. The Notes and the guarantees thereof are secured by a first-priority lien on substantially all personal property of FairPoint Communications and the Subsidiary Guarantors, subject to certain exclusions set forth in the related security documents, pari passu with the lien securing the obligations under the New Credit Agreement. The Notes will mature on August 15, 2019 and accrue interest at a rate of 8.75% per annum, which is payable semi-annually in arrears on February 15 and August 15 of each year.

On or after February 15, 2016, we may redeem all or part of the Notes at the redemption prices set forth in the Indenture, plus accrued and unpaid interest thereon, to the applicable redemption date. At any time prior to February 15, 2016, we may redeem all or part of the Notes at a redemption price equal to 100% of the principal amount of the Notes redeemed, plus a "make-whole" premium as of, and accrued and unpaid interest to, the applicable redemption date. In addition, at any time prior to February 15, 2016, we may, on one or more occasions, redeem up to 35% of the original aggregate principal amount of the Notes, using net cash proceeds of certain qualified equity offerings, at a redemption price of 108.75% of the principal amount of Notes redeemed, plus accrued and unpaid interest to the applicable redemption date.

The holders of the Notes have the ability to require us to repurchase all or any part of the Notes if we experience certain kinds of changes in control or engage in certain asset sales, in each case at the repurchase prices and subject to the terms and conditions set forth in the Indenture.

The Indenture contains certain covenants which are customary with respect to non-investment grade debt securities, including limitations on our ability to incur additional indebtedness, pay dividends on or make other distributions or repurchase our capital stock, make certain investments, enter into certain types of transactions with affiliates, create liens and sell certain assets or merge with or into other companies. These covenants are subject to a number of important limitations and exceptions.

The Indenture also provides for customary events of default, including cross defaults to other specified debt of FairPoint Communications and certain of its subsidiaries.

The Old Credit Agreement. On January 24, 2011, the Old Credit Agreement Borrowers entered into the Old Credit Agreement. The Old Credit Agreement was comprised of the Old Revolving Facility, which had a sub-facility providing for the issuance of up to $30.0 million of letters of credit, and the Old Term Loan. The entire outstanding principal amount of the Old Credit Agreement Loans was due and payable five years after January 24, 2011, subject to certain conditions. On February 14, 2013, we entered into the New Credit Agreement and repaid all outstanding amounts under the Old Credit Agreement, which was subsequently terminated. In addition, the following agreements relating to the Old Credit Agreement Loans were terminated on the Refinancing Closing Date: (i) the Security Agreement, dated as of January 24, 2011, among FairPoint Communications, the subsidiaries of FairPoint Communications party thereto and Bank of America, N.A., as administrative agent, (ii) the Pledge Agreement, dated as of January 24, 2011, made by FairPoint Communications and the subsidiaries of FairPoint Communications party thereto in favor of Bank of America, N.A., as administrative agent, and (iii) the Continuing Guaranty, dated as of January 24, 2011, made by the subsidiaries of FairPoint Communications party thereto in favor of Bank of America, N.A., as administrative agent.

Merger Orders. As a condition to the approval of the Merger and related transactions by state regulatory authorities we agreed to make certain capital expenditures following the completion of the Merger, which were modified by regulatory settlements agreed to with representatives for each of Maine, New Hampshire and Vermont and approved by the applicable regulatory authorities in Maine, New Hampshire and Vermont and approved by the Bankruptcy Court as part of the Plan. For further information on these capital expenditure requirements, *see* "Item 1. Business—Regulatory Environment—State Regulation—Regulatory Conditions to the Merger, as Modified in Connection with the Plan" included elsewhere in this Annual Report.

Off-Balance Sheet Arrangements

As of December 31, 2013, we had approximately $15.9 million outstanding letters of credit under the New Revolving Facility and $1.7 million of surety bonds. As of December 31, 2012, we had approximately $12.0 million in outstanding standby letters of credit under the Old Revolving Facility and $1.8 million of surety bonds. We do not have any other off-balance sheet arrangements other than our operating lease obligations, which are not reflected on our balance sheet. See "—Summary of Contractual Obligations" for further detail.

Summary of Contractual Obligations

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

The following table discloses aggregate information about our contractual obligations as of December 31, 2013 and the periods in which payments are due (in thousands):

	Payments due by period				
Contractual Obligations	**Total**	**Less than 1 year**	**1-3 years**	**3-5 years**	**More than 5 years**
Long-term debt obligations, including current maturities [a]	$ 935,200	$ 6,400	$ 12,800	$ 12,800	$ 903,200
Interest payments on long-term debt obligations [b]	401,229	76,165	154,519	148,484	22,061
Capital lease obligations, including current maturities	2,170	1,625	369	176	—
Operating lease obligations	26,616	9,144	11,348	5,514	610
Other long-term liabilities [c]	849,911	37,029	66,905	61,291	684,686
Total contractual obligations	**$ 2,215,126**	**$ 130,363**	**$ 245,941**	**$ 228,265**	**$ 1,610,557**

(a) Long-term debt obligations exclude outstanding letters of credit totaling $15.9 million under the New Revolving Facility at December 31, 2013. For more information, *see* note (8) "Long-term Debt" to our consolidated financial statements in "Item 8. Financial Statements and Supplementary Data" included elsewhere in this Annual Report.

(b) Interest payments represent cash payments on the long-term debt, including payments associated with interest rate swaps, while excluding amortization of capitalized debt issuance costs.

(c) Other long-term liabilities primarily include our qualified pension and post-retirement healthcare obligations, and deferred tax liabilities. For more information, *see* notes (11) "Employee Benefit Plans" and (12) "Income Taxes" to our consolidated financial statements in "Item 8. Financial Statements and Supplementary Data" included elsewhere in this Annual Report. In addition,

(i) The balance excludes $3.8 million of reserves for uncertain tax positions, including interest and penalties, that were included in deferred tax liabilities at December 31, 2013 for which we are unable to make a reasonably reliable estimate as to when cash settlements with taxing authorities will occur;

(ii) The balance excludes $2.1 million of non-cash unfavorable union contracts, which were recorded upon the adoption of fresh start accounting and are included in other long-term liabilities at December 31, 2013. For further information, *see* note (2) "Significant Accounting Policies—(o) Other Liabilities" to our consolidated financial statements in "Item 8. Financial Statements and Supplementary Data" included elsewhere in this Annual Report;

(iii) The balance includes the current portion of our post-retirement healthcare obligations of $5.7 million presented in the current portion of other accrued liabilities at December 31, 2013; and

(iv) Our 2014 pension contribution is expected to be $30.0 million, which includes our minimum required contribution and an additional discretionary contribution, and has been reflected as due in less than one year. Our actual contribution could differ from this estimation. Due to uncertainties in the pension funding calculation, the amount and timing of any other pension contributions are unknown and therefore the remaining accrued pension obligation has been reflected as due in more than 5 years.

Critical Accounting Policies and Estimates

As disclosed in note (2) "Significant Accounting Policies" to our consolidated financial statements in "Item 8. Financial Statements and Supplementary Data" included elsewhere in this Annual Report, the preparation of our financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions about future events that affect the amounts reported in our consolidated financial statements and accompanying notes. Actual results could differ significantly from those estimates. We believe that the following discussion addresses our most critical accounting policies, which are those that are most important to the portrayal of our financial condition and results of operations and require management's most difficult, subjective and complex judgments. Our critical accounting policies as of December 31, 2013 are as follows:

- Revenue recognition;
- Allowance for doubtful accounts;
- Accounting for qualified pension and other post-retirement healthcare benefits;
- Accounting for income taxes;
- Depreciation of property, plant and equipment;
- Stock-based compensation; and
- Valuation of long-lived assets and indefinite-lived intangible assets.

Revenue Recognition. We recognize service revenues based upon usage of our local exchange network and facilities and contract fees. Fixed fees for voice services, Internet services and certain other services are recognized in the month the service is provided. Revenue from other services that are not fixed fee or that exceed contracted amounts is recognized when those services are provided. Non-recurring customer activation fees, along with the related costs up to, but not exceeding, the activation fees, are deferred and amortized over the customer relationship period. SQI penalties and certain PAP penalties are recorded as a reduction to revenue.

We recognize certain revenues pursuant to various cost recovery programs from state and federal USF, CAF/ICC and from revenue sharing agreements with other LECs administered by the National Exchange Carrier Association ("NECA"). Revenues are calculated based on our investment in our network and other network operations and support costs. We have historically collected revenues recognized through this program; however, adjustments to estimated revenues in future periods are possible. These adjustments could be necessitated by adverse regulatory developments with respect to these subsidies and revenue sharing arrangements, changes in the allowable rates of return, the determination of recoverable costs and/or decreases in the availability of funds in the programs due to increased participation by other carriers.

We make estimated adjustments, as necessary, to revenue and accounts receivable for billing errors, including certain disputed amounts. If circumstances related to these adjustments change or our knowledge evolves, our estimate of the recoverability of our accounts receivable could be further reduced from the levels provided in our consolidated financial statements.

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

On the Effective Date, the accounts receivable balances were valued at fair value using the net realizable value approach. The net realizable value approach was determined by reducing the gross receivable balance by our allowance for doubtful accounts. Due to the relatively short collection period, the net realizable value approach was determined to result in a reasonable indication of fair value of the assets.

Accounting for Pension and Other Post-retirement Healthcare Benefits. Certain of our employees participate in our qualified pension plans and other post-retirement healthcare plans. In the aggregate, the projected benefit obligations of the qualified pension plans exceed the fair value of their respective assets and the post-retirement healthcare plans do not have plan assets, resulting in expense. Significant qualified pension and other post-retirement healthcare plan assumptions, including the discount rate used, the long-term rate-of-return on plan assets, and medical cost trend rates are periodically updated and impact the amount of benefit plan income, expense, assets and obligations reflected in our consolidated financial statements. The actuarial assumptions we used in determining our qualified pension and post-retirement healthcare plans obligations may differ materially from actual results due to changing market and economic conditions, higher or lower withdrawal rates or longer or shorter life spans of participants. While we believe that the assumptions used are appropriate, differences in actual experience or changes in assumptions might materially affect our financial position or results of operations.

Our qualified pension and post-retirement liabilities are highly sensitive to changes in the discount rate. We currently estimate that a movement of 1% in the discount rate would change our December 31, 2013 qualified pension plan benefit obligations by approximately 18%. We currently estimate that a 1% fluctuation in the discount rate would change our December 31, 2013 post-retirement healthcare benefit obligations by approximately 21%.

The post-retirement healthcare benefit obligations are also highly sensitive to the medical trend rate assumption. A 1% increase in the medical trend rate assumed for post-retirement healthcare benefits at December 31, 2013 would result in an increase in the post-retirement healthcare benefit obligations of approximately $139.3 million and a 1% decrease in the medical trend rate assumed at December 31, 2013 would result in a decrease in the post-retirement healthcare benefit obligations of approximately $106.6 million.

For additional information on our qualified pension and post-retirement healthcare plans, *see* note (11) "Employee Benefit Plans" to our consolidated financial statements in "Item 8. Financial Statements and Supplementary Data" included elsewhere in this Annual Report.

Accounting for Income Taxes. Our current and deferred income taxes are affected by events and transactions arising in the normal course of business, as well as in connection with the adoption of new accounting standards and non-recurring items. Assessment of the appropriate amount and classification of income taxes is dependent on several factors, including estimates of the timing and realization of deferred income tax assets and the timing of income tax payments. Actual payments may differ from these estimates as a result of changes in tax laws, as well as unanticipated future transactions affecting related income tax balances. We account for uncertain tax positions taken or expected to be taken in our tax returns utilizing a two step approach. The first step is a recognition process in which we determine whether it is more-likely-than-not that a tax position will be sustained upon examination based on the technical merits of the position. The second step is a measurement process in which a tax position that meets the more-likely-than-not recognition threshold is measured to determine the amount of benefit that is greater than 50 percent likely of being realized upon ultimate settlement.

For additional information on income taxes, *see* note (12) "Income Taxes" to our consolidated financial statements in "Item 8. Financial Statements and Supplementary Data" included elsewhere in this Annual Report.

Depreciation of Property, Plant and Equipment. We recognize depreciation on property, plant and equipment principally on the composite group remaining life method and straight-line composite rates. This method provides for the recognition of the cost of the remaining net investment in telephone plant, less anticipated net salvage value (if any), over the remaining asset lives.

When an asset is retired, the original cost, net of salvage value, is charged against accumulated depreciation and no immediate gain or loss is recognized on the disposition of the asset. Under this method, we review depreciable lives periodically and may revise depreciation rates when appropriate. The Company utilizes straight-line depreciation for its non-telephone property, plant and equipment.

Periodically, the Company reviews the estimated remaining useful lives of its group asset categories to address continuing changes in technology, competition and the Company's overall reduction in capital spending and increased focus on more efficient utilization of its existing assets. In the third quarter of 2013, the Company conducted this review and determined that changes to the estimated remaining useful lives for certain asset categories were appropriate. Accordingly, as a result of the changes to the remaining useful lives, depreciation expense in 2013 was approximately $37.0 million less than it would have been absent the changes, resulting in a reduction in net loss of approximately $39.0 million, or a benefit of $1.49 per share. This change in non-cash expense had no impact on our compliance with the covenants contained in the New Credit Agreement.

Stock-based Compensation . Compensation expense for share-based awards made to employees and directors are recognized based on the estimated fair value of each award over the award's vesting period. We estimate the fair value of share-based payment awards on the date of grant using either an option-pricing model for stock options or the closing market value of our stock for restricted stock and expense the value of the portion of the award that is ultimately expected to vest over the requisite service period in the statement of operations.

We utilize the Black-Scholes option pricing model to calculate the fair value of our stock option grants. The key assumptions used in the Black-Scholes option pricing model are the expected life of the stock option, the expected dividend rate, the risk-free interest rate and expected volatility. The expected life of the stock options granted represents the period of time that the options are expected to be outstanding. The risk-free interest rates are based on United States Treasury yields in effect at the date of grant consistent with the expected exercise timeframes. The expected volatility reflects the historical volatility for a duration consistent with the contractual life of the options. Our assumptions of these key inputs, in addition to our assumption made about the portion of the awards that will ultimately vest, requires subjective judgment.

For additional information on share-based awards, including key assumptions used in calculating the grant date fair values, *see* note (16) "Stock-Based Compensation" to our consolidated financial statements in "Item 8. Financial Statements and Supplementary Data" included elsewhere in this Annual Report.

Valuation of Long-lived Assets and Indefinite-lived Intangible Assets. We review our long-lived assets, which include our amortizable intangible assets, for impairment whenever events or changes in circumstances indicate that the carrying value may not be recoverable. In addition, we review non-amortizable intangible assets for impairment on at least an annual basis as of the first day of the fourth quarter of each year, or more frequently whenever indicators of impairment exist. Indicators of impairment could include, but are not limited to:

- an inability to perform at levels that were forecasted;
- a permanent decline in market capitalization;
- implementation of restructuring plans;
- changes in industry trends; and/or
- unfavorable changes in our capital structure, cost of debt, interest rates or capital expenditures levels.

No factors signaling a potential impairment were identified during the year ended December 31, 2013. Accordingly, no impairment review of our long-lived assets was required in 2013.

Our only non-amortizable intangible asset is the FairPoint trade name. As previously discussed, no factors signaling a potential impairment were identified during the year ended December 31, 2013. As a result, no interim impairment review of our trade name was necessary. An annual impairment review was performed on October 1, 2013. We assess the fair value of our trade name utilizing the relief from royalty method. If the carrying amount of our trade name exceeds its estimated fair value, the asset is considered impaired. For this annual impairment review, we made certain assumptions including an estimated royalty rate, long-term growth rate, effective tax rate and discount rate and applied these assumptions to projected future cash flows, exclusive of cash flows associated with wholesale and others revenues not generated through brand recognition. Results of the assessment indicated that an impairment was not necessary; however, future changes in one or more of these assumptions could result in the recognition of an impairment loss.

For additional information on our FairPoint trade name, including the impairment charges recorded in the year ended December 31, 2011 on goodwill and our trade name, *see* note (6) "Goodwill and Other Intangible Assets" to our consolidated financial statements in "Item 8. Financial Statements and Supplementary Data" included elsewhere in this Annual Report.

New Accounting Standards

For details of recent Accounting Standards Updates and our evaluation of their adoption on our consolidated financial statements, *see* note (3) "Recent Accounting Pronouncements" to our consolidated financial statements in "Item 8. Financial Statements and Supplementary Data" included elsewhere in this Annual Report.

Inflation

There are cost of living adjustment clauses in certain of the collective bargaining agreements covering our labor union employees. Considerable fluctuations in cost of living due to inflation could result in an adverse effect on our operations.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We are exposed to market risk in the normal course of our business operations due to ongoing investing and funding activities, including those associated with the variable interest rate in our New Credit Agreement and our qualified pension plan assets. Market risk refers to the potential change in fair value of a financial instrument as a result of fluctuations in interest rates, fixed income securities and equity prices. We do not hold or issue derivative instruments, derivative commodity instruments or other financial instruments for trading or speculative purposes. Our primary market risk exposures are interest rate risk and investment risk as follows:

Interest Rate Risk - Long-Term Debt. We are exposed to interest rate risk, primarily as it relates to the variable interest rates we are charged under credit agreements to which we are a party. As of December 31, 2013, our interest rate risk exposure was attributable to the New Credit Agreement, which includes the New Term Loan and the New Revolving Facility, each of which is subject to variable interest rates. We use our variable rate debt, in addition to fixed rate debt, to finance our operations and capital expenditures and believe it is prudent to limit the variability of our interest payments on our variable rate debt. To meet this objective, from time to time, we may enter into interest rate derivative agreements to manage fluctuations in cash flows resulting from interest rate risk.

As of December 31, 2013, we were party to interest rate swap agreements in connection with borrowings under the New Credit Agreement covering a combined notional amount of $170.0 million. However, these agreements are not effective until September 30, 2015. Accordingly, on December 31, 2013, the entire $635.2 million principal balance of the New Term Loan was subject to interest rate risk. Interest payments on the New Term Loan are subject to a LIBOR floor of 1.25%. As a result, while LIBOR remains below 1.25%, we incur interest at above market rates. To the extent that LIBOR remains below 1.25%, we are buffered from the full financial impact of interest rate risk; however, as LIBOR rises, a change in interest rates could materially affect our consolidated financial statements. For example, with the principal balance of the New Term Loan as of December 31, 2013, a 1% increase in the interest rate above the LIBOR floor of 1.25% would unfavorably impact interest expense and pre-tax earnings by approximately $6.4 million on an annual basis.

For further information regarding the New Credit Agreement, *see* "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources," and note (8) "Long-Term Debt" and note (9) "Interest Rate Swap Agreements" to our consolidated financial statements in "Item 8. Financial Statements and Supplementary Data" included elsewhere in this Annual Report.

Interest Rate and Investment Risk - Pension Plans. We are exposed to risks related to the fair value of our pension plan assets and the discount rate used to value our pension plan liabilities and the amount of lump-sum payments made to participants. Our pension plan assets consist of a portfolio of fixed income securities, equity securities and cash. Changes in the fair value of this portfolio can occur due to changes in interest rates and the general economy. In addition, interest rates are a primary factor in the determination of our actuarially determined liability and the amount of the accrued benefit paid in the form of a lump-sum to a pension plan retiree when requested. Our qualified pension plan assets have historically funded a large portion of the benefits paid under our qualified pension plans. Payment of significant lump sum payments, lower returns on plan assets, decrease in the fair value of plan assets and lower discount rates could negatively impact the funded status of the plan and we may be required to make larger contributions to the pension plan than currently anticipated. Due to uncertainties in the pension funding calculation, the amount and timing of pension contributions are unknown other than as disclosed in this Annual Report. For activity in our qualified pension plan assets, *see* note (11) "Employee Benefit Plans" to our consolidated financial statements in "Item 8. Financial Statements and Supplementary Data" included elsewhere in this Annual Report.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

INDEX TO FINANCIAL STATEMENTS

Report of Management on Internal Control Over Financial Reporting

We, the management of FairPoint Communications, Inc., are responsible for establishing and maintaining adequate internal control over financial reporting of the Company. Management has evaluated internal control over financial reporting of the Company as of December 31, 2013 using the criteria for effective internal control established in *Internal Control–Integrated Framework (1992)* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

Based on such evaluation, management determined that the Company's internal control over financial reporting was effective as of December 31, 2013.

Ernst & Young, LLP, our independent registered public accounting firm who audited the financial statements included in this Annual Report, has issued an attestation report on the Company's internal control over financial reporting. This report appears on the following page.

/s/ Paul H. Sunu

Paul H. Sunu
Chief Executive Officer

/s/ Ajay Sabherwal

Ajay Sabherwal
Executive Vice President and Chief Financial Officer

Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders of FairPoint Communications, Inc. and subsidiaries

We have audited FairPoint Communications, Inc. and subsidiaries' internal control over financial reporting as of December 31, 2013, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (1992 framework) (the COSO criteria). FairPoint Communications, Inc. and subsidiaries' management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Report of Management on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, FairPoint Communications, Inc. and subsidiaries maintained, in all material respects, effective internal control over financial reporting as of December 31, 2013, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of FairPoint Communications, Inc. and subsidiaries as of December 31, 2013 and 2012, and the related consolidated statements of operations, comprehensive (loss) income, stockholders' equity (deficit) and cash flows for the years ended December 31, 2013 and 2012, the period from January 25, 2011 to December 31, 2011, and the period from January 1, 2011 to January 24, 2011 (Predecessor) and our report dated March 5, 2014 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

Charlotte, North Carolina
March 5, 2014

Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders of FairPoint Communications, Inc. and subsidiaries

We have audited the accompanying consolidated balance sheets of FairPoint Communications, Inc. and subsidiaries as of December 31, 2013 and 2012, and the related consolidated statements of operations, comprehensive (loss) income, stockholders' equity (deficit) and cash flows for the years ended December 31, 2013 and 2012, the period from January 25, 2011 to December 31, 2011, and the period from January 1, 2011 to January 24, 2011 (Predecessor). These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of FairPoint Communications, Inc. and subsidiaries at December 31, 2013 and 2012, and the consolidated results of their operations and their cash flows for the years ended December 31, 2013 and 2012, the period from January 25, 2011 to December 31, 2011, and the period from January 1, 2011 to January 24, 2011 (Predecessor), in conformity with U.S. generally accepted accounting principles.

As discussed in Note 4 to the consolidated financial statements, on January 13, 2011, the Bankruptcy Court entered an order confirming the plan of reorganization, which became effective on January 24, 2011. Accordingly, the accompanying consolidated financial statements have been prepared in conformity with Accounting Standards Codification 852-10, Reorganizations, for the successor Company as a new entity with assets, liabilities and a capital structure having carrying amounts not comparable with prior periods as described in Note 4.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), FairPoint Communications, Inc. and subsidiaries' internal control over financial reporting as of December 31, 2013, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (1992 framework) and our report date d March 5, 2014 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

Charlotte, North Carolina
March 5, 2014

FAIRPOINT COMMUNICATIONS, INC. AND SUBSIDIARIES
Consolidated Balance Sheets
December 31, 2013 and 2012
(in thousands, except share data)

	December 31, 2013	December 31, 2012
Assets:		
Cash	$ 42,700	$ 23,203
Restricted cash	543	6,818
Accounts receivable, net	89,248	86,999
Prepaid expenses	26,552	20,128
Other current assets	3,876	4,219
Deferred income tax, net	18,250	16,376
Assets held for sale	—	12,549
Total current assets	**181,169**	**170,292**
Property, plant and equipment, net	1,301,292	1,438,309
Intangible assets, net	105,886	116,992
Debt issue costs, net	7,101	1,111
Restricted cash	651	651
Other assets	3,799	5,006
Total assets	**$ 1,599,898**	**$ 1,732,361**
Liabilities and Stockholders' Deficit:		
Current portion of long-term debt	$ 6,400	$ 10,000
Current portion of capital lease obligations	1,445	1,220
Accounts payable	37,876	40,654
Claims payable and estimated claims accrual	256	1,282
Accrued interest payable	9,977	176
Accrued payroll and related expenses	34,897	30,952
Other accrued liabilities	55,994	58,262
Liabilities held for sale	—	407
Total current liabilities	**146,845**	**142,953**
Capital lease obligations	447	1,470
Accrued pension obligations	153,534	203,537
Accrued post-retirement healthcare obligations	584,734	616,379
Deferred income taxes	85,948	127,361
Other long-term liabilities	25,864	11,474
Long-term debt, net of current portion	911,722	947,000
Total long-term liabilities	**1,762,249**	**1,907,221**
Total liabilities	**1,909,094**	**2,050,174**
Commitments and contingencies (*See* Note 20)		
Stockholders' deficit:		
Common stock, $0.01 par value, 37,500,000 shares authorized, 26,480,837 and 26,288,998 shares issued and outstanding at December 31, 2013 and 2012, respectively	264	262
Additional paid-in capital	512,008	506,153
Retained deficit	(661,689)	(568,239)
Accumulated other comprehensive loss	(159,779)	(255,989)
Total stockholders' deficit	**(309,196)**	**(317,813)**
Total liabilities and stockholders' deficit	**$ 1,599,898**	**$ 1,732,361**

See accompanying notes to consolidated financial statements.

FAIRPOINT COMMUNICATIONS, INC. AND SUBSIDIARIES
Consolidated Statements of Operations
Years Ended December 31, 2013 and 2012, Three Hundred Forty-One Days Ended December 31, 2011 and Twenty-Four Days Ended January 24, 2011
(in thousands, except per share data)

	Year Ended December 31, 2013	Year Ended December 31, 2012	Three Hundred Forty-One Days Ended December 31, 2011	Predecessor Company Twenty-Four Days Ended January 24, 2011
Revenues	**$ 939,354**	**$ 973,649**	**$ 963,112**	**$ 66,378**
Operating expenses:				
Cost of services and sales, excluding depreciation and amortization	439,217	450,441	453,673	39,826
Selling, general and administrative expense, excluding depreciation and amortization	331,656	332,243	316,966	26,101
Depreciation and amortization	282,438	376,614	336,891	21,515
Reorganization related income	(771)	(3,666)	(232)	—
Impairment of intangible assets and goodwill	—	—	262,019	—
Total operating expenses	**1,052,540**	**1,155,632**	**1,369,317**	**87,442**
Loss from operations	**(113,186)**	**(181,983)**	**(406,205)**	**(21,064)**
Other income (expense):				
Interest expense	(78,675)	(67,610)	(63,807)	(9,321)
Loss on debt refinancing	(6,787)	—	—	—
Other	4,863	739	1,791	(132)
Total other expense	(80,599)	(66,871)	(62,016)	(9,453)
Loss before reorganization items and income taxes	**(193,785)**	**(248,854)**	**(468,221)**	**(30,517)**
Reorganization items	—	—	—	897,313
(Loss) income before income taxes	**(193,785)**	**(248,854)**	**(468,221)**	**866,796**
Income tax benefit (expense)	90,291	95,560	53,276	(279,889)
Net (loss) income from continuing operations	**(103,494)**	**(153,294)**	**(414,945)**	**586,907**
Gain on sale of discontinued operations, net of taxes	10,044	—	—	—
Net (loss) income	**$ (93,450)**	**$ (153,294)**	**$ (414,945)**	**$ 586,907**
Weighted average shares outstanding:				
Basic	26,190	25,987	25,838	89,424
Diluted	26,190	25,987	25,838	89,695
(Loss) earnings per share, basic:				
Continuing operations	$ (3.95)	$ (5.90)	$ (16.06)	$ 6.56
Discontinued operations	0.38	—	—	—
(Loss) earnings per share, basic	**$ (3.57)**	**$ (5.90)**	**$ (16.06)**	**$ 6.56**
(Loss) earnings per share, diluted:				
Continuing operations	$ (3.95)	$ (5.90)	$ (16.06)	$ 6.54
Discontinued operations	0.38	—	—	—
(Loss) earnings per share, diluted	**$ (3.57)**	**$ (5.90)**	**$ (16.06)**	**$ 6.54**

See accompanying notes to consolidated financial statements.

FAIRPOINT COMMUNICATIONS, INC. AND SUBSIDIARIES
Consolidated Statements of Comprehensive (Loss) Income
Years Ended December 31, 2013 and 2012, Three Hundred Forty-One Days Ended December 31, 2011 and Twenty-Four Days Ended January 24, 2011
(in thousands)

				Predecessor Company
	Year Ended December 31, 2013	Year Ended December 31, 2012	Three Hundred Forty-One Days Ended December 31, 2011	Twenty-Four Days Ended January 24, 2011
Net (loss) income	**$ (93,450)**	**$ (153,294)**	**$ (414,945)**	**$ 586,907**
Other comprehensive (loss) income, net of taxes:				
Interest rate swaps (net of $0.4 million tax benefit)	(601)	—	—	—
Qualified pension and post-retirement healthcare plans (net of $45.6 million tax expense, $19.7 million tax benefit, $39.1 million tax benefit and $0.5 million tax expense, respectively)	96,811	(62,495)	(193,494)	493
Total other comprehensive income (loss)	**96,210**	**(62,495)**	**(193,494)**	**493**
Comprehensive income (loss)	**$ 2,760**	**$ (215,789)**	**$ (608,439)**	**$ 587,400**

See accompanying notes to consolidated financial statements.

FAIRPOINT COMMUNICATIONS, INC. AND SUBSIDIARIES
Consolidated Statements of Stockholders' Equity (Deficit)
Years Ended December 31, 2013 and 2012, Three Hundred Forty-One Days Ended December 31, 2011 and Twenty-Four Days Ended January 24, 2011
(in thousands)

	Common stock					
	Shares	Amount	Additional paid-in capital	Retained earnings (deficit)	Accumulated other comprehensive (loss) income	Total stockholders' equity (deficit)
Balance at December 31, 2010 (Predecessor Company)	**89,440**	**$ 894**	**$ 725,786**	**$ (1,101,294)**	**$ (212,804)**	**$ (587,418)**
Net income	—	—	—	586,907	—	586,907
Stock-based compensation expense	—	—	18	—	—	18
Employee benefit adjustment to comprehensive income	—	—	—	—	493	493
Cancellation of Predecessor Company common stock	(89,440)	(894)	(725,804)	726,698	—	—
Elimination of Predecessor Company accumulated other comprehensive loss	—	—	—	(212,311)	212,311	—
Issuance of common stock	25,660	257	481,879	—	—	482,136
Issuance of warrants	—	—	16,350	—	—	16,350
Balance at January 24, 2011	**25,660**	**$ 257**	**$ 498,229**	**$ —**	**$ —**	**$ 498,486**
Net loss	—	—	—	(414,945)	—	(414,945)
Issuance of common stock	541	5	(5)	—	—	—
Issuance of restricted stock	14	—	—	—	—	—
Forfeiture of restricted stock	(18)	—	—	—	—	—
Stock-based compensation expense	—	—	3,810	—	—	3,810
Employee benefit adjustment to comprehensive income	—	—	—	—	(193,494)	(193,494)
Balance at December 31, 2011	**26,197**	**$ 262**	**$ 502,034**	**$ (414,945)**	**$ (193,494)**	**$ (106,143)**
Net loss	—	—	—	(153,294)	—	(153,294)
Issuance of common stock	100	—	—	—	—	—
Forfeiture of restricted stock	(22)	—	—	—	—	—
Exercise of stock options	14	—	64	—	—	64
Stock-based compensation expense	—	—	4,055	—	—	4,055
Employee benefit amounts reclassified from accumulated other comprehensive loss	—	—	—	—	(62,495)	(62,495)
Balance at December 31, 2012	**26,289**	**$ 262**	**$ 506,153**	**$ (568,239)**	**$ (255,989)**	**$ (317,813)**
Net Loss	—	—	—	(93,450)	—	(93,450)
Issuance of common stock	185	2	(2)	—	—	—
Forfeiture of restricted stock	(7)	—	—	—	—	—
Exercise of stock options	14	—	50	—	—	50
Stock-based compensation expense	—	—	5,807	—	—	5,807
Interest rate swaps other comprehensive loss	—	—	—	—	(601)	(601)
Employee benefit other comprehensive income before reclassifications	—	—	—	—	86,841	86,841
Employee benefit amounts reclassified from accumulated other comprehensive loss	—	—	—	—	9,970	9,970
Balance at December 31, 2013	**26,481**	**$ 264**	**$ 512,008**	**$ (661,689)**	**$ (159,779)**	**$ (309,196)**

See accompanying notes to consolidated financial statements.

FAIRPOINT COMMUNICATIONS, INC. AND SUBSIDIARIES
Consolidated Statements of Cash Flows
Years Ended December 31, 2013 and 2012, Three Hundred Forty-One Days Ended December 31, 2011 and Twenty-Four Days Ended January 24, 2011
(in thousands)

				Predecessor Company
	Year Ended December 31, 2013	Year Ended December 31, 2012	Three Hundred Forty-One Days Ended December 31, 2011	Twenty-Four Days Ended January 24, 2011
Cash flows from operating activities:				
Net (loss) income	**$ (93,450)**	**$ (153,294)**	**$ (414,945)**	**$ 586,907**
Adjustments to reconcile net (loss) income to net cash provided by (used in) operating activities:				
Deferred income taxes	(94,369)	(96,778)	(52,203)	279,868
Provision for uncollectible revenue	9,806	7,506	18,344	3,454
Depreciation and amortization	282,438	376,614	336,891	21,515
Post-retirement healthcare	51,035	47,692	35,183	2,654
Qualified pension	6,250	(42)	5,021	986
Gain on sale of business, net	(10,044)	—	—	—
Loss on debt refinancing	6,787	—	—	—
Stock-based compensation	5,807	4,055	3,810	18
Loss on abandoned projects	201	2,862	—	—
Impairment of intangible assets and goodwill	—	—	262,019	—
Other non-cash items	(906)	(3,189)	(4,098)	79
Changes in assets and liabilities arising from operations:				
Accounts receivable	(12,127)	9,587	7,863	(7,752)
Prepaid and other assets	(7,044)	(3,301)	(1,926)	(3,423)
Restricted cash	5,698	(6,164)	—	—
Accounts payable and accrued liabilities	(2,070)	3,364	(12,303)	26,627
Accrued interest payable	9,801	(332)	508	9,017
Other assets and liabilities, net	13,721	(4,198)	67	177
Reorganization adjustments:				
Non-cash reorganization income	(980)	(5,002)	(7,308)	(917,358)
Claims payable and estimated claims accrual	(46)	(8,824)	(66,712)	(1,096)
Restricted cash—Cash Claims Reserve	577	22,219	59,888	(82,764)
Total adjustments	**264,535**	**346,069**	**585,044**	**(667,998)**
Net cash provided by (used in) operating activities	**171,085**	**192,775**	**170,099**	**(81,091)**
Cash flows from investing activities:				
Net capital additions	(128,298)	(145,066)	(163,648)	(12,477)
Proceeds from sale of business	30,452	—	—	—
Distributions from investments and proceeds from the sale of property	1,895	759	798	—
Net cash used in investing activities	**(95,951)**	**(144,307)**	**(162,850)**	**(12,477)**
Cash flows from financing activities:				
Proceeds from issuance of long-term debt	920,590	—	—	—
Financing costs	(13,217)	—	(884)	(1,500)
Repayments of long-term debt	(961,800)	(43,000)	—	—
Restricted cash	—	1,573	1,843	34
Proceeds from exercise of stock options	55	64	—	—

See accompanying notes to consolidated financial statements.

	Year Ended December 31, 2013	Year Ended December 31, 2012	Three Hundred Forty-One Days Ended December 31, 2011	Predecessor Company Twenty-Four Days Ended January 24, 2011
Repayment of capital lease obligations	(1,265)	(1,252)	(1,120)	(201)
Net cash used in financing activities	**(55,637)**	**(42,615)**	**(161)**	**(1,667)**
Net change	**19,497**	**5,853**	**7,088**	**(95,235)**
Cash, beginning of period	23,203	17,350	10,262	105,497
Cash, end of period	**$ 42,700**	**$ 23,203**	**$ 17,350**	**$ 10,262**

Supplemental disclosure of cash flow information:				
Interest paid, net of capitalized interest	$ 64,786	$ 66,619	$ 62,290	$ —
Income tax paid, net of refunds	1,647	562	218	—
Capital additions included in accounts payable, claims payable and estimated claims accrual or liabilities subject to compromise at period-end	8,067	9,501	854	1,818
Reorganization costs paid	324	1,197	20,069	11,110
Non-cash settlement of claims payable	—	7,668	—	—

See accompanying notes to consolidated financial statements.

FAIRPOINT COMMUNICATIONS, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements

Except as otherwise required by the context, references in notes to the consolidated financial statements to:

- *"FairPoint Communications" refers to FairPoint Communications, Inc., excluding its subsidiaries.*
- *"FairPoint" or the "Company" refer to the combined business of FairPoint Communications, Inc. and all of its subsidiaries after giving effect to the merger on March 31, 2008 with Northern New England Spinco Inc. ("Spinco"), a subsidiary of Verizon Communications Inc. ("Verizon"), which transaction is referred to herein as the "Merger".*
- *"Northern New England operations" refers to the local exchange business acquired from Verizon and certain of its subsidiaries after giving effect to the Merger.*
- *"Telecom Group" refers to FairPoint, exclusive of our acquired Northern New England operations.*
- *"Predecessor Company" refers to the Company during all periods as of and preceding the Effective Date (as defined hereinafter).*

(1) Organization and Principles of Consolidation

Organization

FairPoint is a leading provider of advanced communications services to business, wholesale and residential customers within its service territories. FairPoint offers its customers a suite of advanced data services such as Ethernet, high capacity data transport and other IP-based services over an extensive, next-generation fiber network with more than 16,000 miles of fiber optic cable in addition to Internet access, high-speed data ("HSD") and local and long distance voice services. As of December 31, 2013, FairPoint's service territory spanned 17 states where it is the incumbent communications provider, primarily serving rural communities and small urban markets. Many of its local exchange carriers ("LECs") have served their respective communities for more than 80 years. As of December 31, 2013, the Company operated with approximately 1.2 million access line equivalents in service, including approximately 330,000 broadband subscribers.

Principles of Consolidation

The consolidated financial statements include all majority-owned subsidiaries of the Company. Partially owned equity affiliates are accounted for under the cost method or equity method when the Company demonstrates significant influence, but does not have a controlling financial interest. Intercompany accounts and transactions have been eliminated.

(2) Significant Accounting Policies

(a) Presentation and Use of Estimates

The accompanying consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States ("U.S. GAAP"), which require management to make estimates and assumptions that affect reported amounts and disclosures. Actual results could differ from those estimates. The consolidated financial statements reflect all adjustments that, in the opinion of management, are necessary for a fair presentation of results of operations and financial condition for the interim periods shown, including normal recurring accruals and other items.

The Company has reclassified its long-term workers compensation accrual from “Accrued post-retirement healthcare obligations” to “Other long-term liabilities” and certain accrued employee costs from "Accounts payable" to "Other accrued liabilities" in the December 31, 2012 consolidated balance sheet to be consistent with current period presentation. The Company has reclassified certain computer and customer service expenses from "Selling, general and administrative expense, excluding depreciation and amortization" to "Cost of services and sales, excluding depreciation and amortization" for the year ended December 31, 2012, the 341 days ended December 31, 2011 and the 24 days ended January 24, 2011 to be consistent with current period presentation.

Examples of significant estimates include the allowance for doubtful accounts, revenue reserves, the depreciation of property, plant and equipment, valuation of intangible assets, qualified pension and post-retirement healthcare plan assumptions, stock-based compensation and income taxes.

(b) Revenue Recognition

Revenues are recognized as services are rendered and are primarily derived from the usage of the Company's networks and facilities or under revenue-sharing arrangements with other communications carriers. Revenues are primarily derived from: voice services, access (including pooling), certain Connect America Fund ("CAF") receipts, Internet and broadband services and other miscellaneous services. Local access charges are billed to local end users under tariffs approved by each state's Public Utilities Commission ("PUC") or by rates, terms and conditions determined by the Company. Access revenues are derived for the intrastate jurisdiction by billing access charges to interexchange carriers and to other local exchange carriers ("LECs"). These charges are billed based on toll or access tariffs approved by the local state's PUC. Access charges for the interstate jurisdiction are billed in accordance with tariffs filed by the National Exchange Carrier Association ("NECA") or by the individual company and approved by the Federal Communications Commission (the "FCC").

Revenues are determined on a bill-and-keep basis or a pooling basis. If on a bill-and-keep basis, the Company bills the charges to either the access provider or the end user and keeps the revenue. If the Company participates in a pooling environment (interstate or intrastate), the toll or access billed is contributed to a revenue pool. The revenue is then distributed to individual companies based on their company-specific revenue requirement. This distribution is based on individual state PUCs' (intrastate) or the FCC's (interstate) approved separation rules and rates of return. Distribution from these pools can change relative to changes made to expenses, plant investment or rate-of-return. Some companies participate in federal and certain state universal service programs that are pooling in nature but are regulated by rules separate from those described above. These rules vary by state. Revenues earned through the various pooling arrangements are initially recorded based on the Company's estimates. Rule changes associated with the FCC's CAF/ICC Order (as defined hereinafter) impact the NECA interstate pooling, in that a portion of the Company's interstate Universal Service Fund ("USF") revenues, which are administered through the NECA pools and which prior to January 1, 2012 were based on costs, are now based on the CAF Phase I rules and will be based on CAF Phase II rules when those are put into effect.

Long distance retail and wholesale services can be recurring due to coverage under an unlimited calling plan or usage sensitive. In either case, they are billed in arrears and recognized when earned. Internet and data services revenues are substantially all recurring revenues and are billed one month in advance and deferred until earned.

As of December 31, 2013 and December 31, 2012, unearned revenue of $18.0 million and $19.1 million, respectively, was included in other accrued liabilities on the consolidated balance sheets. As of December 31, 2013 and December 31, 2012, unearned revenue of $10.5 million and $1.4 million, respectively, was included in other long-term liabilities on the consolidated balance sheets.

The majority of the Company's other miscellaneous services revenue is generated from ancillary special projects at the request of third parties, video services, directory services and late payment charges to end users and interexchange carriers. The Company requires customers to pay for ancillary special projects in advance. As of December 31, 2013 and 2012, customer deposits of $6.8 million and $10.5 million, respectively, were included in current other accrued liabilities on the consolidated balance sheets. Once the ancillary special project is completed and all project costs have been accumulated for proper accounting recognition, the advance payment is recognized as revenue with any overpayments refunded to the customer as appropriate. The Company recognizes revenue upon the provision of video services in certain markets by reselling DirecTV content and providing cable and IP television video-over-digital subscriber line services. The Company also publishes telephone directories in some of its Telecom Group markets and recognizes revenues associated with these publications evenly over the time period covered by the directory, which is typically twelve months. The Company bills late payment fees to customers who have not paid their bills in a timely manner. In general, late fee revenue is recognized based on collection of these charges.

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

The Company was subject to retail service quality plans in Maine, New Hampshire and Vermont in 2012 and for a portion of 2013 in Maine and Vermont, pursuant to which service quality index ("SQI") penalties are imposed upon the Company's failure to meet the requirements of the respective plans. Penalties resulting from these commitments were recorded as a reduction to revenue and to current other accrued liabilities on the consolidated balance sheets. The Company also adopted a separate performance assurance plan ("PAP") for certain services provided on a wholesale basis to competitive local exchange carriers ("CLECs") in each of the states of Maine, New Hampshire and Vermont, pursuant to which FairPoint is required to provide performance credits in the event the Company is unable to meet the provisions of the respective PAP. Penalties resulting from these commitments are recorded as a reduction to revenue. In Maine and New Hampshire, these penalties are recorded as a reduction to accounts receivable since they are paid by the Company in the form of credits applied to CLEC bills. PAP penalties in Vermont are recorded to other accrued liabilities as a majority of these penalties are paid to the Vermont Universal Service Fund ("VUSF"), while the remaining credits assessed in Vermont are paid by the Company in the form of credits applied to CLEC bills. PAP penalties in Vermont are recorded to other accrued liabilities on the consolidated balance sheets as a majority of these penalties are paid to the Vermont Universal Service Fund ("VUSF"), while the remaining credits assessed in Vermont are paid by the Company in the form of credits applied to CLEC bills.

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

Customer arrangements that include both equipment and services are evaluated to determine whether the elements are separable. If the elements are deemed separable and separate earnings processes exist, the revenue associated with each element is allocated to each element based on the relative estimated selling price of the separate elements. We have estimated the selling prices of each element by reference to vendor-specific objective evidence of selling prices when the elements are sold separately. The revenue associated with each element is then recognized as earned.

Management makes estimated adjustments, as necessary, to revenue or accounts receivable for billing errors, including certain disputed amounts.

(c) Cash and Cash Equivalents

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

(d) Accounts Receivable

Accounts receivable are recorded at the invoiced amount and do not bear interest. The allowance for doubtful accounts is recorded as a contra-asset of accounts receivable and represents the Company's best estimate of probable credit losses in the Company's existing accounts receivable. The Company establishes an allowance for doubtful accounts based upon factors surrounding the credit risk of specific customers, historical trends, and other information. Accounts receivable balances are reviewed on an aged basis and account balances are written off against the allowance after all means of collection have been exhausted and the potential for recovery is considered remote.

The following is activity in the Company's allowance for doubtful accounts receivable for the years ended December 31, 2013 and 2012, the 341 days ended December 31, 2011 and the 24 days ended January 24, 2011 (in thousands):

				Predecessor Company
	Year Ended December 31, 2013	Year Ended December 31, 2012	Three Hundred Forty-One Days Ended December 31, 2011	Twenty-Four Days Ended January 24, 2011
Balance, beginning of period	**$ 18,863**	**$ 11,497**	**$ —**	**$ 40,608**
Provision charged to expense	9,806	7,506	18,344	3,454
Provision charged to other accounts [(a)]	(163)	(341)	(129)	(159)
Amounts written off, net of recoveries [(b)]	(15,364)	211	(6,718)	(2,566)
Assets held for sale adjustment	—	(10)	—	—
Fresh start accounting adjustment	—	—	—	(41,337)
Balance, end of period	**$ 13,142**	**$ 18,863**	**$ 11,497**	**$ —**

(a) Provision charged to other accounts includes accruals charged to accounts payable for anticipated uncollectible charges on purchase of accounts receivable from others which were billed by the Company.

(b) Net recoveries for the year ended December 31, 2012 are primarily due to settlements with wholesale carriers for accounts receivable previously reserved as uncollectible.

(e) Credit Risk

The financial instruments which potentially subject the Company to concentrations of credit risk consist principally of cash and gross accounts receivable existing at December 31, 2013. The Company places its cash with high-quality financial institutions. Concentrations of credit risk with respect to accounts receivable are principally related to trade receivables from other interexchange carriers and are otherwise limited to the Company's large number of customers in several states.

The Company sponsors qualified pension plans for certain employees. Plan assets associated with these qualified pension plans are held by third party trustees and investments are comprised of debt and equity securities. The fair value of these plan assets is dependent on the financial condition of those entities issuing the debt and equity securities. A significant decline in the fair value of plan assets could result in additional Company contributions to the qualified pension plans in order to meet funding requirements under the Employee Retirement Income Security Act of 1974, as amended ("ERISA"). For additional information regarding the plan assets of the Company's qualified pension plans, including the December 31, 2013 balance at risk, *see* note (11) "Employee Benefit Plans" herein.

(f) Property, Plant and Equipment

In connection with the Company's adoption of fresh start accounting on the Effective Date (as defined hereinafter in note (4) "Reorganization Under Chapter 11"), accumulated depreciation was reset to zero and the net carrying value of the Company's existing property, plant and equipment assets were revalued to their fair value, generally their appraised value after considering economic obsolescence. New remaining useful asset lives were established for each asset ranging from two to twenty-three years.

Given that a majority of the Company's property, plant and equipment is plant used in the Company's wireline and next generation networks, depreciation is principally based on the composite group remaining life method and straight-line composite rates. This methodology provides for the recognition of the cost of the remaining net investment in telephone plant, property and equipment less anticipated positive net salvage value, over the remaining asset lives. When depreciable telephone plant is replaced or retired, the carrying amount of such plant is deducted from the respective accounts and charged to accumulated depreciation. No gain or loss is recognized on disposition of assets. Use of this methodology requires the periodic revision of depreciation rates. In the evaluation of asset lives, multiple factors are considered, including, but not limited to, the ongoing network deployment, technology upgrades and enhancements, planned retirements and the adequacy of reserves. The Company utilizes straight-line depreciation for its non-telephone property, plant and equipment.

Periodically, the Company reviews the estimated remaining useful lives of its group asset categories to address continuing changes in technology, competition and the Company's overall reduction in capital spending and increased focus on more efficient utilization of its existing assets. In the third quarter of 2013, the Company conducted this review and determined that changes to the estimated remaining useful lives for certain asset categories were appropriate. Accordingly, as a result of the changes to the remaining useful lives, depreciation expense in 2013 was approximately $37.0 million less than it would have been absent the changes, resulting in a reduction in net loss of approximately $39.0 million, or a benefit of $1.49 per share.

Network software purchased or developed in connection with related plant assets is capitalized. The Company also capitalizes interest associated with the acquisition or construction of network related assets. Capitalized interest is reported as part of the cost of the network related assets and as a reduction in interest expense. *See* "—(i) Computer Software and Interest Costs" herein for additional information.

(g) Long-Lived Assets

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

As of December 31, 2013, the Company performed its routine review of impairment triggering events specified by the Property, Plant and Equipment Topic of the ASC and concluded that it does not believe a triggering event has occurred.

(h) Asset Retirement Obligations

The Company records the estimated fair value of an asset retirement obligation when incurred. The associated asset retirement costs are capitalized as part of the carrying amount of the long-lived asset and depreciated over the asset's estimated useful life. The Company has asset retirement obligations related to battery, fuel tank and chemically-treated pole disposal as well as soil remediation at leased facilities. Considerable management judgment is required in estimating these obligations. Important assumptions include estimates of retirement costs, the timing of the future retirement activities and the likelihood or retirement provisions being enforced. Changes in these assumptions based on future information could result in adjustments to estimated liabilities.

(i) Computer Software and Interest Costs

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

Subsequent additions, modifications or upgrades to internal-use software are capitalized only to the extent that they allow the software to perform a task it previously did not perform. Software maintenance and training costs are expensed in the period in which they are incurred.

In addition, the Company capitalizes the interest cost associated with the period of time over which the Company's internal use software is developed or obtained in accordance with the Interest Topic of the ASC. The Company did not capitalize interest costs incurred during the pendency of the Chapter 11 Cases (as defined hereinafter in note (4) "Reorganization Under Chapter 11"), as payments on all interest obligations had been stayed as a result of the filing of the Chapter 11 Cases (as defined hereinafter in note (4) "Reorganization Under Chapter 11"). Upon entry into the Old Credit Agreement (as defined hereinafter in note (4) "Reorganization Under Chapter 11") on the Effective Date (as defined hereinafter in note (4) "Reorganization Under Chapter 11"), the Company resumed capitalization of interest costs.

During the year ended December 31, 2013, the year ended December 31, 2012, the 341 days ended December 31, 2011 and the 24 days ended January 24, 2011, the Company capitalized $20.0 million, $9.5 million, $12.1 million and $1.3 million, respectively, in software costs. The Company capitalized $0.1 million, $0.1 million and $0.2 million, respectively, in interest costs for the year ended December 31, 2013, the year ended December 31, 2012 and the 341 days ended December 31, 2011. No interest costs were capitalized for the 24 days ended January 24, 2011.

As of the year ended December 31, 2013, the gross value and accumulated depreciation of the capitalized software was $135.0 million and $104.0 million, respectively. As of the year ended December 31, 2012 the gross value and accumulated depreciation of the capitalized software was $114.4 million and $87.9 million, respectively. During the year ended December 31, 2013, the year ended December 31, 2012, the 341 days ended December 31, 2011 and the 24 days ended January 24, 2011, amortization expense on the capitalized software was $15.4 million, $47.2 million, $41.3 million and $2.9 million, respectively, and is expected to be $9.3 million in 2014, $9.3 million in 2015, $5.9 million in 2016, $4.9 million in 2017 and $1.7 million in 2018, respectively.

(j) Impairment of Goodwill and Other Intangible Assets

Goodwill. Upon the Effective Date (as defined hereinafter in note (4) "Reorganization Under Chapter 11"), the Company's goodwill consisted of the difference between the reorganization value of the Predecessor Company and the fair value of net assets using the acquisition method of accounting for business combinations in the Business Combinations Topic of the ASC. In accordance with the Intangibles—Goodwill and Other Topic of the ASC, goodwill was not amortized, but was assessed for impairment at least annually. The Company historically performed its annual impairment test as of the first day of the fourth fiscal quarter of each year. At September 30, 2011, the Company wrote off the entire balance of goodwill. *See* note (6) "Goodwill and Other Intangible Assets" herein for further information on the impairment test and write-off.

Indefinite-lived Intangible Asset. In accordance with the Intangibles—Goodwill and Other Topic of the ASC, non-amortizable intangible assets are assessed for impairment at least annually. The Company performs its annual impairment test as of the first day of the fourth fiscal quarter of each year and assesses the fair value of the trade name based on the relief from royalty method. If the carrying amount of the trade name exceeds its estimated fair value, the asset is considered impaired.

For its non-amortizable intangible asset impairment assessments of the FairPoint trade name, the Company makes certain assumptions including an estimated royalty rate, a long-term growth rate, an effective tax rate and a discount rate, and applies these assumptions to projected future cash flows, exclusive of cash flows associated with wholesale revenues as these revenues are not generated through brand recognition. Changes in one or more of these assumptions may result in the recognition of an impairment loss different from what was actually recorded.

Amortizable Intangible Assets. Amortizable intangible assets must be reviewed for impairment as part of long-lived assets whenever indicators of impairment exist. *See* "—(g) Long-Lived Assets" herein for additional information.

(k) Accounting for Income Taxes

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

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

FairPoint Communications files a consolidated income tax return with its subsidiaries. All intercompany tax transactions and accounts have been eliminated in consolidation.

(l) Stock-Based Compensation

The Company accounts for its stock-based compensation plan in accordance with the Compensation—Stock Compensation Topic of the ASC, which establishes accounting for stock-based awards granted in exchange for employee services. Accordingly, for employee awards which are expected to vest, stock-based compensation cost is measured at the grant date, based on the fair value of the award, and is recognized as expense on a straight-line basis over the requisite service period, which generally begins on the date the award is granted through the date the award vests.

(m) Employee Benefit Plans

The Company accounts for qualified pension plans and other post-retirement healthcare plans in accordance with the Compensation-Retirement Benefits Topic of the ASC. The Company recognizes the overfunded or underfunded status of its qualified defined benefit plans and post-retirement healthcare plans as either an asset or liability, respectively, on the consolidated balance sheets. Net periodic benefit cost is recognized during the year in the consolidated statements of operations. Actuarial gains and losses that arise during the year are recognized as a component of comprehensive income (loss), net of applicable income taxes, and included in accumulated other comprehensive loss. These gains and losses are amortized over future years as a component of the net periodic benefit cost.

(n) Operating Segments

Management views its business of providing data, video and voice communication services to residential, wholesale and business customers as one operating segment as defined in the Segment Reporting Topic of the ASC. The Company's services consist of retail and wholesale telecommunications and data services, including voice and HSD in 17 states. The Company's chief operating decision maker assesses operating performance and allocates resources based on the consolidated results.

(o) Other Liabilities

Accrued Bonuses. As of December 31, 2013 and 2012, accrued bonuses of $14.3 million and $13.2 million, respectively, were included in other accrued liabilities on the consolidated balance sheets.

Unfavorable intangible assets. On the Effective Date (as defined hereinafter in note (4) "Reorganization Under Chapter 11"), the Company recorded $13.0 million in unfavorable union contracts and $0.7 million in unfavorable leasehold agreements, each of which resulted from agreements with contract rates in excess of market value rates as of the Effective Date (as defined hereinafter in note (4) "Reorganization Under Chapter 11"). Amortization is recognized on a straight-line basis over the remaining term of the agreements, ranging from 1 to 7 years, as a reduction of employee expense and rent expense within operating expenses.

(p) Advertising Costs

Advertising costs are expensed as they are incurred.

(q) Interest Rate Swap Agreements

In the third quarter of 2013, the Company entered into interest rate swap agreements. For further information regarding these interest rate swap agreements, *see* note (9) "Interest Rate Swap Agreements." The interest rate swap agreements, at their inception, qualified for and were designated as cash flow hedging instruments. In accordance with the Derivatives and Hedging Topic of the ASC, the Company records its interest rate swaps on the consolidated balance sheet at fair value. The effective portion of changes in fair value are recorded in accumulated other comprehensive loss and are subsequently reclassified into earnings in the period that the hedged forecasted transaction affects earnings. Any ineffective portion is recognized in earnings. Both at inception and on a quarterly basis, the Company performs an effectiveness test.

(3) Recent Accounting Pronouncements

In February 2013, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2013-02 related to disclosure of reclassifications out of accumulated other comprehensive income. This ASU requires companies to report, in one place, information about reclassifications out of accumulated other comprehensive income. In addition, it also requires companies to report changes in accumulated other comprehensive income balances. This new guidance was to be applied prospectively and was effective for interim and annual periods beginning after December 15, 2012, with early adoption permitted. The Company adopted this ASU during the quarter ended March 31, 2013 and it did not have a material impact on the Company's consolidated financial statements.

In July 2013, the FASB issued ASU 2013-11, which is designed to reduce diversity in practice of financial statement presentation of an unrecognized tax benefit when a net operating loss carryforward, a similar tax loss or a tax credit carryforward exists. This new guidance becomes effective for the Company on January 1, 2014 and the Company does not expect it to have a material impact on its consolidated financial statements.

(4) Reorganization Under Chapter 11

Emergence from Chapter 11 Proceedings

On October 26, 2009 (the "Petition Date"), the Company and substantially all of its direct and indirect subsidiaries filed voluntary petitions for relief under chapter 11 of title 11 of the United States Code (the "Bankruptcy Code" or "Chapter 11") in the United States Bankruptcy Court for the Southern District of New York (the "Bankruptcy Court"). The cases were being jointly administered under the caption *In re FairPoint Communications, Inc.*, Case No. 09-16335 (the "Chapter 11 Cases"). On January 13, 2011, the bankruptcy judge entered into an order dated as of December 29, 2010 (the "Confirmation Order") confirming the Company's Third Amended Joint Plan of Reorganization Under Chapter 11 of the Bankruptcy Code (as confirmed, the "Plan") and on January 24, 2011 (the "Effective Date") the Company emerged from Chapter 11 protection.

On the Effective Date, the Company substantially consummated its reorganization through a series of transactions contemplated by the Plan and the Plan became effective pursuant to its terms.

The Plan provided for, among other things:

(i) the cancellation and extinguishment on the Effective Date of all of the Company's equity interests outstanding on or prior to the Effective Date, including but not limited to all outstanding shares of the Company's common stock, par value $0.01 per share, options and contractual or other rights to acquire any equity interests,

(ii) the issuance of shares of the Company's new common stock, par value $0.01 per share, and the issuance of warrants to purchase shares of the Company's common stock to holders of certain claims in connection with a warrant agreement that the Company entered into with The Bank of New York Mellon, as the warrant agent, on the Effective Date (the "Warrant Agreement"), in accordance with the Plan,

(iii) the satisfaction of claims associated with

   (a) the credit agreement, dated as of March 31, 2008, by and among FairPoint Communications, Spinco, Bank of America, N.A., as syndication agent, Morgan Stanley Senior Funding, Inc. and Deutsche Bank Securities Inc., as co-documentation agents, and Lehman Commercial Paper Inc., as administrative agent, and the lenders party thereto (as amended, supplemented or otherwise modified from time to time, the "Pre-Petition Credit Facility"),

   (b) the 13-1/8% Senior Notes due April 1, 2018 (the "Old 13-1/8% Notes"), which were issued pursuant to the indenture, dated as of March 31, 2008, by and between Spinco and U.S. Bank National Association, as amended, and

   (c) the 13-1/8% Senior Notes due April 2, 2018 (the "New 13-1/8% Notes" and, together with the Old 13-1/8% Notes, the "Pre-Petition Notes"), which were issued pursuant to the indenture, dated as of July 29, 2009, by and between FairPoint Communications and U.S. Bank National Association and

(iv) the termination by its conversion into the Old Revolving Facility (as defined herein) of the Debtor-in-Possession Credit Agreement, dated as of October 27, 2009 (as amended, the "DIP Credit Agreement"), by and among FairPoint Communications and FairPoint Logistics, Inc. ("FairPoint Logistics"), certain financial institutions and Bank of America, N.A., as the administrative agent.

The Company's common stock began trading on the Nasdaq Stock Market LLC on January 25, 2011. In addition, on the Effective Date, FairPoint Communications and FairPoint Logistics (collectively, the "Old Credit Agreement Borrowers") entered into a $1,075.0 million senior secured credit facility with a syndicate of lenders and Bank of America, N.A., as the administrative agent for the lenders, arranged by Banc of America Securities LLC (the "Old Credit Agreement") comprised of a $75 million revolving facility (the "Old Revolving Facility") and a $1.0 billion term loan facility (the "Old Term Loan", and together with the Old Revolving Facility, the "Old Credit Agreement Loans").

In connection with the Chapter 11 Cases, the Company also negotiated with representatives of the state regulatory authorities in Maine, New Hampshire and Vermont with respect to (i) certain regulatory approvals relating to the Chapter 11 Cases and the

Plan and (ii) certain modifications to the requirements imposed by state regulatory authorities as a condition to approval of the Merger (each a "Merger Order", and collectively, the "Merger Orders").

On June 30, 2011 and on November 7, 2012, the Bankruptcy Court entered final decrees closing certain of the Company's bankruptcy cases due to such cases being fully administered. Of the 80 original bankruptcy cases, only the Chapter 11 Case of Northern New England Telephone Operations LLC (Case No. 09-16365) remains open.

Financial Reporting in Reorganization

The Company applied the Reorganizations Topic of the ASC effective as of the Petition Date. The Reorganizations Topic of the ASC, which is applicable to companies in Chapter 11, generally does not change the manner in which financial statements are prepared. However, it does require that the financial statements for periods subsequent to the filing of the Chapter 11 Cases distinguish transactions and events that are directly associated with the reorganization from the ongoing operations of the business. Amounts that can be directly associated with the reorganization and restructuring of the business after the Petition Date must be reported separately as reorganization items in the statements of operations. In addition, cash provided by and used for reorganization items must be disclosed separately.

The Company's consolidated statement of operations for the twenty-four days ended January 24, 2011 includes the results of operations during the Chapter 11 Cases. As such, any revenues, expenses, and gains and losses realized or incurred that are directly related to the bankruptcy case are reported separately as reorganization items due to the bankruptcy.

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

	Predecessor Company
	Twenty-Four Days Ended January 24, 2011
Professional fees [a]	$ (13,965)
Cancellation of debt income [b]	1,351,057
Goodwill adjustment [c]	(351,931)
Intangible assets adjustment [c]	(30,381)
Property, plant and equipment adjustment [c]	(56,258)
Pension and post-retirement healthcare adjustment [c]	22,076
Other assets and liabilities adjustment [c]	(16,037)
Tax account adjustments [c]	4,313
Other [d]	(11,561)
Total reorganization items	**$ 897,313**

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

(b) Net gains and losses associated with the settlement of liabilities subject to compromise, of which $1,351,055 was recognized on the Effective Date.

(c) Revaluation of long-lived assets and certain assets and liabilities upon adoption of fresh start accounting.

(d) Includes expenses associated with the Long Term Incentive Plan (as defined hereinafter in note (16) "Stock-Based Compensation") adopted as part of the Plan, the FairPoint Litigation Trust entered into as part of the Plan and the write-off of the Predecessor Company's long term incentive plans and director and officer policy.

After the Effective Date, income or expense amounts recognized as a result of settling outstanding bankruptcy claims and professional fees directly associated with the reorganization process are included in operating expenses as Reorganization related expense in the consolidated statements of operations.

Magnitude of Bankruptcy Claims

Claims totaling $4.9 billion were filed with the Bankruptcy Court against the Company. As of February 28, 2014, through the claim resolution process, $3.8 billion of these claims have been settled and $1.1 billion of these claims have been disallowed by the Bankruptcy Court. Additionally, $15.2 million of these claims have been withdrawn by the respective creditors. The disallowance of one claim in the amount of $0.2 million has been appealed by the claimant.

Fresh Start Accounting

Upon confirmation of the Plan by the Bankruptcy Court and satisfaction of the remaining material contingencies to complete the implementation of the Plan, under the Reorganizations Topic of the ASC, the Company was required to apply the provisions of fresh start accounting to its financial statements on the Effective Date because (i) the reorganization value of the assets of the emerging entity immediately before the date of confirmation was less than the total of all post-petition liabilities and allowed claims and (ii) the holders of the existing voting shares of the Predecessor Company's common stock immediately before confirmation received less than 50 percent of the voting shares of the emerging entity.

The adoption of fresh start accounting resulted in a new reporting entity. The financial statements as of January 24, 2011 and for subsequent periods report the results of a new entity with no beginning retained earnings. With the exception of deferred taxes and assets and liabilities associated with pension and post-retirement healthcare plans, which were recorded in accordance with the Income Taxes Topic of the ASC and the Compensation Topic of the ASC, respectively, all of the new entity's assets and liabilities were recorded at their estimated fair values upon the Effective Date and the Predecessor Company's retained deficit and accumulated other comprehensive loss were eliminated. Any presentation of the new entity's financial position and results of operations is not comparable to prior periods.

In accordance with fresh start accounting, the Company also recorded the debt and equity at fair value utilizing the total enterprise value of approximately $1.5 billion. The enterprise value was determined in conjunction with the confirmation of the Plan. To facilitate the calculation of the enterprise value, the Company developed financial projections for the five years ending December 31, 2015 for the post-emergence company using a number of estimates and assumptions and prepared a calculation of the present value of the future cash flows. The projections were based on information available to the Company at the time of preparation of such projections in connection with the Plan and its confirmation and also in connection with negotiations regarding the Plan with certain of its lenders. The projections and calculation of the present value of the future cash flows included key assumptions, such as: (i) revenue growth beginning in 2013 through the terminal year based on the Company achieving specified business objectives, (ii) improving earnings before interest and taxes margins, (iii) reductions in capital expenditures and (iv) a risk adjusted discount rate of 7.2%. Projections are inherently subject to uncertainties and risks and the Company's actual results and financial condition have varied from those contemplated by the projections and other financial information provided to the Bankruptcy Court. The Company believes that because such projections and other financial information are now out of date and because of developments with respect to the Company's business since such projections were prepared, these projections should not be relied upon.

(5) Dividends

The Company currently does not pay a dividend on its common stock and does not expect to pay dividends in the foreseeable future.

(6) Goodwill and Other Intangible Assets

Goodwill

At September 30, 2011, as a result of the significant sustained decline in the Company's stock price since the Effective Date, which caused the Company's market capitalization to be below its book value, the Company determined that a possible impairment of goodwill was indicated and concluded that an interim two-step goodwill impairment test was necessary. In step one, the Company calculated the discounted cash flows to arrive at a fair value, which was then compared to the carrying value, including goodwill. A combination of expected cash flows and higher discount rates resulted in the fair value, using the discounted cash flow method, being less than the carrying value, at which point the Company proceeded to step two, which compared the implied fair value of the Company's goodwill to the carrying amount. Results of the impairment test required the Company to record a non-cash impairment charge of $243.2 million, reducing the carrying value of the goodwill to zero at September 30, 2011.

Indefinite-lived Intangible Asset

At September 30, 2011, as a result of the significant sustained decline in the Company's stock price since the Effective Date which caused the Company's market capitalization to be below its book value, the Company determined that a possible impairment of the FairPoint trade name was indicated and concluded that an interim impairment test was necessary. Results of the impairment test required the Company to record a non-cash impairment charge totaling $18.8 million at September 30, 2011. At December 31, 2013 and 2012, the Company's trade name is recorded at $39.2 million.

On October 1, 2012 and October 1, 2013, the Company performed its annual non-amortizable intangible asset impairment test and concluded that there was no impairment at that time.

As of December 31, 2013, the Company performed its routine review of impairment triggering events specified by the Intangibles—Goodwill and Other Topic of the ASC and concluded that it did not believe a triggering event had occurred.

Other Amortizable Intangible Assets

The Company's amortizable intangible assets are as follows (in thousands):

	December 31, 2013	December 31, 2012
Customer lists *(weighted average 9.0 years)*:		
Gross carrying amount	$ 99,000	$ 99,000
Less: accumulated amortization	(32,290)	(21,290)
Net customer lists	**66,710**	**77,710**
Favorable leasehold agreements *(weighted average 2.7 years)*:		
Gross carrying amount	410	410
Less: accumulated amortization	(403)	(297)
Net favorable leasehold agreements	**7**	**113**
Total amortizable intangible assets, net *(weighted average 8.9 years)*	**$ 66,717**	**$ 77,823**

Amortization expense of the Company's amortizable intangible assets was $11.1 million, $11.2 million and $10.4 million for the year ended December 31, 2013, the year ended December 31, 2012 and the 341 days ended December 31, 2011, respectively, and is expected to be approximately $11.0 million in 2014, 2015, 2016, 2017 and 2018, respectively. Amortization expense for the Company's amortizable intangible assets prior to the Effective Date was $1.5 million for the 24 days ended January 24, 2011.

(7) Property, Plant and Equipment

A summary of property, plant and equipment is shown below (in thousands):

	Estimated Life (in years)	December 31, 2013	December 31, 2012
Land	—	$ 35,585	$ 36,824
Buildings	40	191,348	181,269
Central office equipment	7 – 10	559,304	524,545
Outside communications plant	15 – 35	1,091,238	1,050,662
Furniture, vehicles and other work equipment (1)	5 – 15	197,439	178,931
Plant under construction	—	93,734	90,766
Other (1)	—	18,881	17,403
Total property, plant and equipment		**2,187,529**	**2,080,400**
Less: Accumulated depreciation		(886,237)	(642,091)
Net property, plant and equipment		**$ 1,301,292**	**$ 1,438,309**

(1) The Company has reclassified certain network software assets from "Other" to "Furniture, vehicles and other work equipment" as of December 31, 2012 in the above table to be consistent with current period presentation.

Depreciation expense, excluding amortization of intangible assets, for the year ended December 31, 2013, the year ended December 31, 2012, the 341 days ended December 31, 2011 and the 24 days ended January 24, 2011 was $271.3 million, $365.5 million, $326.5 million and $20.1 million respectively. Depreciation expense includes amortization of assets recorded under capital leases.

The Company recorded $3.7 million of asset retirement obligations during the year ended December 31, 2013. Accretion expense, revisions in cash flow estimates and liability settlements were insignificant during the year. The Company's asset retirement obligations are included as a component of other accrued liabilities or other long-term liabilities in the consolidated balance sheets based on the expected timing of the obligation. As of December 31, 2013, the Company's asset retirement liability of $4.3 million consisted of $1.1 million in other accrued liabilities and $3.2 million in other long-term liabilities. As of December 31, 2012, the Company's asset retirement liability of $0.6 million consisted of $0.1 million in other accrued liabilities and $0.5 million in other long-term liabilities.

(8) Long-term Debt

Long-term debt for the Company at December 31, 2013 and 2012 is shown below (in thousands):

	December 31, 2013	December 31, 2012
New Term Loan, due 2019 *(weighted average rate of 7.50%)*	$ 635,200	$ —
Discount on New Term Loan [(a)]	(17,078)	—
Notes, 8.75%, due 2019	300,000	—
Old Term Loan, due 2016 *(weighted average rate of 6.50%)*	—	957,000
Total long-term debt	$ 918,122	$ 957,000
Less: current portion	(6,400)	(10,000)
Total long-term debt, net of current portion	**$ 911,722**	**$ 947,000**

(a) The $17.1 million discount on the New Term Loan (as defined below) is being amortized using the effective interest method over the term of the New Term Loan (as defined below) due 2019.

As of December 31, 2013, the Company had $59.1 million, net of $15.9 million outstanding letters of credit, available for additional borrowing under the New Revolving Facility (as defined below).

The approximate aggregate maturities of long-term debt, excluding the debt discount on the New Term Loan (as defined below), for each of the five years subsequent to December 31, 2013 are as follows (in thousands):

Year ending December 31,	Balance Due
2014	$ 6,400
2015	6,400
2016	6,400
2017	6,400
2018	6,400
Thereafter	903,200
Total long-term debt, including current portion	**$ 935,200**

Refinancing

On February 14, 2013 (the "Refinancing Closing Date"), FairPoint Communications refinanced the Old Credit Agreement Loans (as defined herein) (the "Refinancing"). In connection with the Refinancing, FairPoint Communications (i) issued $300.0 million aggregate principal amount of its 8.75% senior secured notes due 2019 (the "Notes") in a private offering exempt from registration under the Securities Act pursuant to an indenture (the "Indenture") that FairPoint Communications entered into on the Refinancing Closing Date with certain of its subsidiaries that guarantee the indebtedness under the New Credit Agreement (as defined herein) (the "Subsidiary Guarantors") and U.S. Bank National Association, as trustee and collateral agent, and (ii) entered into a new credit agreement (the "New Credit Agreement"), dated as of the Refinancing Closing Date, with the lenders party thereto from time to time and Morgan Stanley Senior Funding, Inc., as administrative agent and letter of credit issuer. The New Credit Agreement provides for a $75.0 million revolving credit facility (the "New Revolving Facility"), which has a sub-facility providing for the issuance of up to $40.0 million in letters of credit, and a $640.0 million term loan facility (the "New Term Loan" and, together with the New Revolving Facility, the "New Credit Agreement Loans"). On the Refinancing Closing Date, FairPoint Communications used the proceeds of the Notes offering, together with $640.0 million of borrowings under the New Term Loan and cash on hand to (i) repay principal of $946.5 million outstanding on the Old Term Loan (as defined herein), plus approximately $7.7 million of accrued interest and (ii) pay approximately $32.6 million of fees, expenses and other costs related to the Refinancing.

The New Credit Agreement. The principal amount of the New Term Loan and commitments under the New Revolving Facility may be increased by an aggregate amount of up to $200.0 million, subject to certain terms and conditions specified in the New Credit Agreement. The New Term Loan will mature on February 14, 2019 and the New Revolving Facility will mature on February 14, 2018, subject in each case to extensions pursuant to the terms of the New Credit Agreement.

Interest Rates and Fees. Interest on borrowings under the New Credit Agreement Loans accrue at an annual rate equal to either a British Bankers Association London Inter-Bank Offered Rate ("LIBOR") or the base rate, in each case plus an applicable margin. LIBOR is a per annum rate for dollar deposits with an interest period of one, two, three or six months (at FairPoint Communication's election), subject to a minimum LIBOR floor of 1.25%. The base rate is the per annum rate equal to the greatest of (x) the federal funds effective rate plus 0.50%, (y) the rate of interest publicly quoted from time to time by The Wall Street Journal as the United States "Prime Rate" and (z) LIBOR with an interest period of one month plus 1.00%. The applicable margin for the New Term Loan is (a) 6.25% per annum with respect to term loans bearing interest based on LIBOR or (b) 5.25% per annum with respect to term loans bearing interest based on the base rate. The applicable interest rate for the New Revolving Facility is, initially, (a) 5.50% with respect to revolving loans bearing interest based on LIBOR or (b) 4.50% per annum with respect to revolving loans bearing interest based on the base rate, in each case subject to adjustment based on FairPoint Communication's consolidated total leverage ratio, as defined in the New Credit Agreement. FairPoint Communications is required to pay a quarterly letter of credit fee on the average daily amount available to be drawn under letters of credit equal to the applicable interest rate for revolving loans bearing interest based on LIBOR, plus a fronting fee of 0.125% per annum on the average daily amount available to be drawn under such letters of credit. In addition, FairPoint Communications is required to pay a quarterly commitment fee on the average daily unused portion of the New Revolving Facility, which is 0.50% initially, subject to reduction to 0.375% based on FairPoint Communication's consolidated total leverage ratio.

Security/Guarantors. All obligations under the New Credit Agreement, together with certain designated hedging obligations and cash management obligations, are unconditionally guaranteed on a senior secured basis by each of the Subsidiary Guarantors and secured by a first-priority lien on substantially all personal property of FairPoint Communications and the Subsidiary Guarantors, subject to certain exclusions set forth in the related security documents, pari passu with the lien securing the obligations under the Notes.

Mandatory Repayments. FairPoint Communications is required to make quarterly repayments of the New Term Loan in a principal amount equal to $1.6 million during the term of the New Credit Agreement. In addition, mandatory repayments are required under the New Credit Agreement with (i) a percentage, initially equal to 50% and subject to reduction to 25% based on FairPoint Communication's consolidated total leverage ratio, of FairPoint Communication's excess cash flow, as defined in the New Credit Agreement, beginning with the fiscal year ending December 31, 2013, (ii) the net cash proceeds of certain asset dispositions, insurance proceeds and condemnation awards and (iii) issuances of debt not permitted to be incurred under the New Credit Agreement. Optional prepayments and mandatory prepayments resulting from the incurrence of debt not permitted to be incurred under the New Credit Agreement are required to be made at (i) 103.0% of the aggregate principal amount prepaid if such prepayment is made on or prior to February 14, 2014, (ii) 102.0% of the aggregate principal amount prepaid if such prepayment is made after February 14, 2014, but on or prior to February 14, 2015 and (iii) 101.0% of the aggregate principal amount prepaid if such prepayment is made after February 14, 2015 and on or prior to February 14, 2016. No premium is required to be paid for prepayments made after February 14, 2016.

Covenants. The New Credit Agreement contains customary representations and warranties and affirmative and negative covenants for a transaction of this type, including two financial maintenance covenants: (i) a consolidated interest coverage ratio and (ii) a consolidated total leverage ratio. The New Credit Agreement also contains a covenant limiting the amount of capital expenditures that FairPoint Communications and its subsidiaries may make in any fiscal year. As of December 31, 2013, FairPoint Communications was in compliance with all covenants under the New Credit Agreement.

Events of Default. The New Credit Agreement also contains customary events of default for a transaction of this type.

The Notes. On the Refinancing Closing Date, FairPoint Communications issued $300.0 million of the Notes pursuant to the Indenture in a private offering exempt from registration under the Securities Act.

The terms of the Notes are governed by the Indenture. The Notes are senior secured obligations of FairPoint Communications and are guaranteed by the Subsidiary Guarantors. The Notes and the guarantees thereof are secured by a first-priority lien on substantially all personal property of FairPoint Communications and the Subsidiary Guarantors, subject to certain exclusions set forth in the related security documents, pari passu with the lien securing the obligations under the New Credit Agreement. The Notes will mature on August 15, 2019 and accrue interest at a rate of 8.75% per annum, which is payable semi-annually in arrears on February 15 and August 15, commencing on August 15, 2013.

On or after February 15, 2016, FairPoint Communications may redeem all or part of the Notes at the redemption prices set forth in the Indenture, plus accrued and unpaid interest thereon, to the applicable redemption date. At any time prior to February 15, 2016, FairPoint Communications may redeem all or part of the Notes at a redemption price equal to 100% of the principal amount of the Notes redeemed, plus a "make-whole" premium as of, and accrued and unpaid interest to, the applicable redemption date. In addition, at any time prior to February 15, 2016, FairPoint Communications may, on one or more occasions, redeem up to 35% of the original aggregate principal amount of the Notes, using net cash proceeds of certain qualified equity offerings, at a redemption price of 108.75% of the principal amount of Notes redeemed, plus accrued and unpaid interest to the applicable redemption date.

The holders of the Notes have the ability to require FairPoint Communications to repurchase all or any part of the Notes if FairPoint Communications experiences certain kinds of changes in control or engages in certain asset sales, in each case at the repurchase prices and subject to the terms and conditions set forth in the Indenture.

The Indenture contains certain covenants which are customary with respect to non-investment grade debt securities, including limitations on FairPoint Communication's ability to incur additional indebtedness, pay dividends on or make other distributions or repurchase FairPoint Communication's capital stock, make certain investments, enter into certain types of transactions with affiliates, create liens and sell certain assets or merge with or into other companies. These covenants are subject to a number of important limitations and exceptions. As of December 31, 2013, FairPoint Communications was in compliance with all covenants under the Indenture.

The Indenture also provides for customary events of default, including cross defaults to other specified debt of FairPoint Communications and certain of its subsidiaries.

Old Credit Agreement

On January 24, 2011, FairPoint Communications and FairPoint Logistics, Inc. (collectively, the "Old Credit Agreement Borrowers") entered into a $1,075.0 million senior secured credit facility with a syndicate of lenders and Bank of America, N.A., as the administrative agent for the lenders (the "Old Credit Agreement"), comprised of a $75.0 million revolving facility (the "Old Revolving Facility") and a $1.0 billion term loan (the "Old Term Loan" and together with the Old Revolving Facility, the "Old Credit Agreement Loans"). On January 24, 2011, the Company paid to the lenders providing the Old Revolving Facility an aggregate fee equal to $1.5 million. Interest on the Old Credit Agreement Loans accrued at an annual rate equal to either (a) LIBOR plus 4.50%, with a minimum LIBOR floor of 2.00% for the Old Term Loan, or (b) a base rate plus 3.50% per annum, which base rate was equal to the highest of (x) Bank of America's prime rate, (y) the federal funds effective rate plus 0.50% and (z) the applicable LIBOR plus 1.00%. In addition, the Company was required to pay a 0.75% per annum commitment fee on the average daily unused portion of the Old Revolving Facility. The entire outstanding principal amount of the Old Credit Agreement Loans was to be due and payable on January 24, 2016. The Old Credit Agreement required quarterly repayments of principal of the Old Term Loan after the first anniversary of January 24, 2011. During 2012 and in the first quarter of 2013, prior to the Old Credit Agreement being retired, the Company made $43.0 million and $10.5 million, respectively, of principal payments on the Old Term Loan.

The Old Credit Agreement contained customary representations, warranties and affirmative and negative covenants. The Old Credit Agreement also contained minimum interest coverage and maximum total leverage maintenance covenants, along with a maximum senior leverage covenant measured upon the incurrence of certain types of debt. As of December 31, 2012, the Old Credit Agreement Borrowers were in compliance with all covenants under the Old Credit Agreement.

On February 14, 2013, the Company completed the Refinancing and repaid all amounts outstanding under the Old Credit Agreement.

Debt Issue Costs

On February 14, 2013, the Company completed the Refinancing and capitalized $7.6 million of debt issue costs associated with the New Credit Agreement and Notes. These debt issue costs are being amortized over a weighted average life of 6.2 years using the effective interest method.

On January 24, 2011, the Company entered into the Old Credit Agreement and capitalized $2.4 million of debt issue costs associated with the Old Credit Agreement. These debt issue costs were being amortized over a weighted average life of 3.7 years using the effective interest method. Upon completion of the Refinancing, a significant portion of the Old Credit Agreement debt issue costs were written off.

As of December 31, 2013 and 2012, the Company had capitalized debt issue costs of $7.1 million and $1.1 million, respectively, net of amortization.

(9) Interest Rate Swap Agreements

The Company uses interest rate swap agreements to protect the Company against adverse fluctuations in interest rates by reducing its exposure to variability in cash flows relating to interest payments on a portion of its outstanding debt. The Company's interest rate swaps, which are designated as cash flow hedges, involve the receipt of variable amounts from counterparties in exchange for the Company making fixed-rate payments over the effective term of the agreements without exchange of the underlying notional amount. The Company does not hold or issue any derivative financial instruments for speculative trading purposes.

In the third quarter of 2013, the Company entered into interest rate swap agreements with a combined notional amount of $170.0 million with three counterparties that are effective for a two year period beginning on September 30, 2015 and maturing on September 30, 2017. Each respective swap agreement requires the Company to pay a fixed rate of 2.665% and provides that the Company will receive a variable rate based on the three month LIBOR rate subject to a minimum LIBOR floor of 1.25%. Amounts payable by or due to the Company will be net settled with the respective counterparties on the last business day of each fiscal quarter, commencing December 31, 2015.

The effect of the Company's interest rate swap agreements on the consolidated balance sheet at December 31, 2013 is shown below (in thousands):

	As of December 31, 2013		
Derivatives designated as hedging instruments:	**Balance Sheet Location**	**Fair Value**	
Interest rate swaps	Other long-term liabilities	$	1,005

The effect of the Company's interest rate swap agreements on the consolidated statements of comprehensive (loss) income for the year ended December 31, 2013 is shown below (in thousands):

	Amount of Loss Recognized in Other Comprehensive Loss on Derivative (Effective Portion)	
	Year Ended December 31, 2013	
Interest Rate Swaps	$	601

There were no amounts reclassified into current earnings due to ineffectiveness during the periods presented. The Company estimates that none of the amount reported in accumulated other comprehensive loss for interest rate swaps is expected to be reclassified to interest expense in the next 12 months as the interest rate swap agreements are not effective until September 30, 2015.

Each interest rate swap agreement contains a provision whereby if the Company defaults on any of its indebtedness, the Company may also be declared in default under the interest rate swap agreements.

(10) Fair Value

The Fair Value Measurements and Disclosures Topic of the ASC defines fair value, establishes a framework for measuring fair value and establishes a hierarchy that categorizes and prioritizes the sources to be used to estimate fair value. The Fair Value Measurements and Disclosures Topic of the ASC also expands financial statement disclosures about fair value measurements.

In determining fair value, the Company uses a hierarchy for inputs used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the most observable inputs be used when available. The hierarchy is broken down into three levels based on the reliability of inputs as follows:

Level 1 - Valuations based on quoted prices in active markets for identical assets or liabilities that the Company has the ability to access.
Level 2 - Valuations based on quoted prices for similar instruments in active markets or quoted prices in markets that are not active or for which all significant inputs are observable, either directly or indirectly.
Level 3 - Valuations based on inputs that are unobservable and significant to the overall fair value measurement.

The Company's non-financial assets and liabilities, including its long-lived assets and indefinite-lived intangible assets, are measured and subsequently adjusted, if necessary, to fair value on a non-recurring basis. The Company periodically performs routine reviews of triggering events and/or an impairment test, as applicable. Based on these procedures, the Company did not require an adjustment to fair value to be recorded in 2013 or 2012.

The Company's financial instruments, other than interest rate swap agreements and long-term debt, consist primarily of cash, restricted cash, accounts receivable and accounts payable. The carrying amounts of these financial instruments are estimated to approximate fair value due to the relatively short period of time to maturity for these instruments. As of December 31, 2013, interest rate swap agreements are carried at their fair value and measured on a recurring basis as follows (in thousands):

	Fair Value Measurements Using		
	Level 1	Level 2	Level 3
Long-term interest rate swap liability [a]	$ —	$ 1,005	$ —

(a) The fair value is determined using valuation models which rely on the expected LIBOR based yield curve and estimates of counterparty and the Company’s non-performance risk. Because each of these inputs are directly observable or can be corroborated by observable market data, we have categorized these interest rate swaps as Level 2 within the fair value hierarchy.

Long-term debt is not carried at fair value, but measured on a recurring basis. The estimated fair values of the Company's long-term debt as of December 31, 2013 and December 31, 2012 are as follows (in thousands):

	December 31, 2013		December 31, 2012	
	Carrying Amount	Fair Value [a]	Carrying Amount	Fair Value [a]
New Term Loan, due 2019 [b]	$ 618,122	$ 655,844	$ —	$ —
Notes, 8.75%, due 2019	300,000	318,000	—	—
Old Term Loan, repaid February 2013	—	—	957,000	929,500
Total	$ 918,122	$ 973,844	$ 957,000	$ 929,500

(a) The Company estimated fair value based on market prices of the Company's debt securities at the balance sheet date, which falls within Level 2 of the fair value hierarchy.

(b) The carrying amount of the New Term Loan is net of the unamortized discount of $17.1 million.

For a discussion of the fair value measurement of the Company's pension plan assets, *see* note (11) "Employee Benefit Plans—Plan Assets, Obligations and Funded Status—Qualified Pension Plan Assets".

(11) Employee Benefit Plans

The Company sponsors noncontributory qualified defined benefit pension plans ("qualified pension plans") and post-retirement healthcare plans which provide certain cash payments and medical and dental benefits to eligible retired employees and their beneficiaries and covered dependents. These plans were assumed as part of the acquisition of the Northern New England operations from Verizon. The qualified pension plan and the post-retirement healthcare plan which cover non-represented employees are frozen. Therefore, no new benefits are being earned by participants and no new participants are becoming eligible for benefits in these plans. Participants in the qualified pension plan and the post-retirement healthcare plan covering represented employees continue to accrue benefits in accordance with the respective plan documents and contractual requirements in the collective bargaining agreements. Eligibility to participate in the plans is based on an employee's age and years of service. The Company makes contributions to the qualified pension plans to meet minimum ERISA funding requirements and has the ability to elect to make additional discretionary contributions. The post-retirement healthcare plans are unfunded and the Company funds the benefits that are paid.

Annually, the Company remeasures the net liabilities of its qualified pension and other post-retirement healthcare benefits in accordance with the Compensation—Retirement Benefits Topic of the ASC.

Plan Assets, Obligations and Funded Status

A summary of plan assets, projected benefit obligation and funded status of the plans are as follows for the year ended December 31, 2013 and the year ended December 31, 2012 (in thousands):

	Qualified Pension Plans	
	Year Ended December 31, 2013	**Year Ended December 31, 2012**
Fair value of plan assets:		
Beginning fair value of plan assets	$ 166,304	$ 160,293
Actual return on plan assets	18,883	13,931
Plan settlements	(7,931)	(3,517)
Employer contributions	21,800	19,842
Benefits paid	(23,814)	(24,245)
Ending fair value of plan assets	**175,242**	**166,304**
Projected benefit obligation:		
Beginning projected benefit obligation	$ 369,841	$ 318,254
Service cost	18,543	15,489
Interest cost	14,934	14,565
Plan settlements	(7,931)	(3,517)
Benefits paid	(23,814)	(24,245)
Actuarial loss (gain)	(42,797)	49,295
Ending projected benefit obligation	**328,776**	**369,841**
Funded status	**$ (153,534)**	**$ (203,537)**
Accumulated benefit obligation	$ 290,910	$ 323,432
Amounts recognized in the consolidated balance sheet:		
Long-term liabilities	$ (153,534)	$ (203,537)
Net amount recognized in the consolidated balance sheet	**$ (153,534)**	**$ (203,537)**
Amounts recognized in accumulated other comprehensive loss:		
Net actuarial loss	$ (60,349)	$ (116,835)
Net amount recognized in accumulated other comprehensive loss	**$ (60,349)**	**$ (116,835)**

	Post-retirement Healthcare Plans	
	Year Ended December 31, 2013	Year Ended December 31, 2012
Fair value of plan assets:		
Beginning fair value of plan assets	$ —	$ 961
Employer contributions	3,704	2,530
Benefits paid	(3,704)	(3,491)
Ending fair value of plan assets	—	—
Projected benefit obligation:		
Beginning projected benefit obligation	$ 621,443	$ 533,181
Service cost	26,712	25,423
Interest cost	24,555	23,958
Benefits paid	(3,704)	(3,491)
Actuarial loss (gain)	(78,571)	42,372
Ending projected benefit obligation	**590,435**	**621,443**
Funded status	**$ (590,435)**	**$ (621,443)**
Amounts recognized in the consolidated balance sheet:		
Current liabilities	$ (5,701)	$ (5,064)
Long-term liabilities	(584,734)	(616,379)
Net amount recognized in the consolidated balance sheet	**$ (590,435)**	**$ (621,443)**
Amounts recognized in accumulated other comprehensive loss:		
Net actuarial loss	$ (111,960)	$ (197,929)
Net amount recognized in accumulated other comprehensive loss	**$ (111,960)**	**$ (197,929)**

Qualified Pension Plan Assets. The investment objective for the qualified pension plan assets is to achieve an attractive risk-adjusted return over time that will provide for the payment of benefits in the future while minimizing the risk of loss of principal. The Company's strategy emphasizes a long-term equity orientation, global diversification and financial and operating risk controls. Both active and passive management investment approaches are employed depending on perceived market efficiencies and various other factors. Diversification targets of 70% equity securities and 30% fixed income securities for the represented employees plan seeks to minimize the concentration of market risk. For the qualified pension plan for the non-represented employees plan, the diversification target is 20% equity securities and 80% fixed income securities and is invested using a liability driven investment strategy. The asset allocation at December 31, 2013 for the Company's qualified pension plan assets was as follows:

	Non-Represented Employees Plan	Represented Employees Plan	Total Qualified Pension Plans
Cash and cash equivalents [(a)]	1.8%	0.8%	1.0%
Equity securities [(b)]	16.9%	70.6%	61.4%
Fixed income securities	81.3%	28.6%	37.6%
Plan asset portfolio allocation at December 31, 2013	100.0%	100.0%	100.0%

(a) Cash and cash equivalents at December 31, 2013 include amounts pending settlement from the purchase or sale of equity or fixed income securities.

(b) Equity securities at December 31, 2013 include amounts held in hedged equity funds which primarily invest using a "fund of funds" strategy in multiple other equity funds.

The fair values for the qualified pension plan assets by asset category at December 31, 2013 are as follows (in thousands):

	Total	Level 1	Level 2	Level 3
Cash and cash equivalents	$ 1,677	$ 1,677	$ —	$ —
Equity securities [(a)]	107,683	69,381	26,591	11,711
Fixed income securities	65,882	28,942	36,940	—
Fair value of plan assets at December 31, 2013	**$ 175,242**	**$ 100,000**	**$ 63,531**	**$ 11,711**

(a) All Level 3 equity securities are amounts held in hedged equity funds.

The fair values for the qualified pension plan assets by asset category at December 31, 2012 were as follows (in thousands):

	Total	Level 1	Level 2	Level 3
Cash and cash equivalents	$ 8,480	$ 8,480	$ —	$ —
Equity securities [(a)]	88,177	53,209	23,099	11,869
Fixed income securities	69,647	21,543	48,104	—
Fair value of plan assets at December 31, 2012	**$ 166,304**	**$ 83,232**	**$ 71,203**	**$ 11,869**

(a) All Level 3 equity securities are amounts held in hedged equity funds.

Cash and cash equivalents include short-term investment funds, primarily in diversified portfolios of investment grade money market instruments and are valued using quoted market prices, and thus classified within Level 1 of the fair value hierarchy, as outlined in note (10) "Fair Value".

Equity securities include direct holdings of equity securities and units held in mutual funds that invest in equity securities of domestic and international corporations in a variety of industry sectors. The direct holdings and units held in publicly traded mutual funds are valued using quoted market prices and are classified within Level 1 of the fair value hierarchy. Fair values for units held in mutual funds that invest in equity securities that are not publicly traded are based on observable prices and are classified within Level 2 of the fair value hierarchy. Hedged equity funds included within equity securities seek to maximize absolute returns using a broad range of strategies to enhance returns and provide diversification. The fair values of hedged equity funds are estimated using net asset value per share of the investments. The Company has the ability to redeem these investments at net asset value on a limited basis and thus has classified hedged equity funds within Level 3 of the fair value hierarchy.

Fixed income securities are investments in mutual funds that invest in corporate bonds and other debt instruments. These securities are expected to provide significant diversification benefits, in terms of asset volatility and pension funding volatility, in the portfolio and a stable source of income. Units held in publicly traded mutual funds that invest in fixed income securities are valued using quoted market prices and are classified within Level 1 of the fair value hierarchy. Fair values of mutual funds that invest in fixed income securities that are not publicly traded are based on observable prices and are classified within Level 2 of the fair value hierarchy.

A reconciliation of the beginning and ending balance of plan assets that are measured at fair value using significant unobservable inputs (Level 3) for the year ended December 31, 2012 and the year ended December 31, 2013 is as follows (in thousands):

	Hedged Equity Funds
Balance at December 31, 2011	**$ 22,360**
Actual gain on plan assets held	509
Transfers in and/or out of Level 3	(11,000)
Balance at December 31, 2012	**$ 11,869**
Actual gain on plan assets held	2,083
Transfers in and/or out of Level 3	(2,241)
Balance at December 31, 2013	**$ 11,711**

Post-retirement Healthcare Plan Assets. The post-retirement healthcare plan assets were returned to the Company during 2012 as the related trust was no longer required as a result of the New Hampshire deregulation legislation. The plan assets for the post-retirement healthcare plans were invested in short-term investment funds, primarily in diversified portfolios of investment grade money market instruments and were valued using quoted market prices and thus classified within Level 1 of the fair value hierarchy.

Net Periodic Benefit Cost. Components of the net periodic benefit cost related to the Company's qualified pension plans and post-retirement healthcare plans for the year ended December 31, 2013, the year ended December 31, 2012, the 341 days ended December 31, 2011 and the 24 days ended January 24, 2011 are as follows (in thousands):

	Qualified Pension Plans			Predecessor Company
	Year Ended December 31, 2013	Year Ended December 31, 2012	Three Hundred Forty-One Days Ended December 31, 2011	Twenty-Four Days ended January 24, 2011
Service cost	$ 18,543	$ 15,489	$ 11,885	$ 849
Interest cost	14,934	14,565	12,882	934
Expected return on plan assets	(12,462)	(13,268)	(13,303)	(1,089)
Amortization of prior service cost	—	—	—	98
Amortization of actuarial loss	5,585	2,213	—	283
Plan settlement	1,683	445	712	—
Net periodic benefit cost	**$ 28,283**	**$ 19,444**	**$ 12,176**	**$ 1,075**

	Post-retirement Healthcare Plans			Predecessor Company
	Year Ended December 31, 2013	Year Ended December 31, 2012	Three Hundred Forty-One Days Ended December 31, 2011	Twenty-Four Days ended January 24, 2011
Service cost	$ 26,712	$ 25,423	$ 18,944	$ 1,167
Interest cost	24,555	23,958	19,859	1,252
Expected return on plan assets	—	(33)	(13)	(1)
Amortization of prior service cost	—	—	—	276
Amortization of actuarial loss	7,398	6,194	303	368
Plan settlement	—	—	925	—
Net periodic benefit cost	**$ 58,665**	**$ 55,542**	**$ 40,018**	**$ 3,062**

Other Comprehensive Loss (Income). Other pre-tax changes in plan assets and benefit obligations recognized in other comprehensive loss (income) are as follows for the year ended December 31, 2013, the year ended December 31, 2012, the 341 days ended December 31, 2011 and the 24 days ended January 24, 2011 (in thousands):

	Qualified Pension Plans			
				Predecessor Company
	Year Ended December 31, 2013	Year Ended December 31, 2012	Three Hundred Forty-One Days Ended December 31, 2011	Twenty-Four Days ended January 24, 2011
Amounts recognized in other comprehensive loss (income):				
Net (gain) loss arising during the period	$ (49,218)	$ 48,632	$ 71,573	$ —
Amortization or curtailment of prior service cost	—	—	—	(98)
Amortization or settlement recognition of net loss	(7,268)	(2,658)	(712)	(283)
Total amount recognized in other comprehensive loss (income)	**$ (56,486)**	**$ 45,974**	**$ 70,861**	**$ (381)**
Estimated amounts that will be amortized from accumulated other comprehensive loss in the next fiscal year:				
Net actuarial loss	$ (2,156)	$ (4,870)	$ (2,069)	$ —
Total amount estimated to be amortized from accumulated other comprehensive loss in the next fiscal year	**$ (2,156)**	**$ (4,870)**	**$ (2,069)**	**$ —**

	Post-retirement Healthcare Plans			
				Predecessor Company
	Year Ended December 31, 2013	Year Ended December 31, 2012	Three Hundred Forty-One Days Ended December 31, 2011	Twenty-Four Days Ended January 24, 2011
Amounts recognized in other comprehensive loss (income):				
Net (gain) loss arising during the period	(78,571)	42,405	162,021	—
Amortization or curtailment of prior service cost	—	—	—	(276)
Amortization or settlement recognition of net loss	(7,398)	(6,194)	(303)	(368)
Total amount recognized in other comprehensive loss (income)	**$ (85,969)**	**$ 36,211**	**$ 161,718**	**$ (644)**
Estimated amounts that will be amortized from accumulated other comprehensive loss in the next fiscal year:				
Net actuarial loss	$ (3,694)	$ (8,941)	$ (6,727)	$ —
Total amount estimated to be amortized from accumulated other comprehensive loss in the next fiscal year	**$ (3,694)**	**$ (8,941)**	**$ (6,727)**	**$ —**

Assumptions

The determination of the net liability and the net periodic benefit cost recognized for the qualified pension plans and post-retirement healthcare plans by the Company are, in part, based on assumptions made by management. These assumptions include, among others, the discount rate applied to estimated future cash flows of the plans, the expected return on assets held by the qualified pension plans, certain demographic characteristics of the participants, such as expected retirement and mortality rates, and future inflation in healthcare costs. Certain assumptions, which include, among others, assumptions regarding future benefit increases and increases in the amount of post-retirement healthcare expenditures to be paid by the Company, reflect the Company's past practice of providing such increases to participants and therefore are considered a substantive plan under the Compensation—Retirement Benefits Topic of the ASC.

Projected Benefit Obligation Assumptions. The weighted average assumptions used in determining projected benefit obligations are as follows:

	December 31, 2013	December 31, 2012
Qualified Pension Plans:		
Discount rate	4.92%	4.08%
Rate of compensation increase [(a)]	3.00%	3.00%
Post-retirement Healthcare Plans:		
Discount rate	4.98%	4.20%
Rate of compensation increase [(a)]	4.00%	4.00%

(a) The rate of future increases in compensation assumption only applies to the plans for represented employees as plans for non-represented employees are frozen.

Net Periodic Benefit Cost Assumptions. The weighted average assumptions used in determining net periodic cost are as follows:

				Predecessor Company
	Year Ended December 31, 2013	Year Ended December 31, 2012	Three Hundred Forty-One Days Ended December 31, 2011	Twenty-Four Days Ended January 24, 2011
Qualified Pension Plans:				
Discount rate	4.08%	4.63%	5.75%	5.56%
Expected return on plan assets [(a)]	7.54%	7.52%	8.32%	8.32%
Rate of compensation increase [(b)]	3.00%	3.00%	3.00%	3.00%
Post-retirement Healthcare Plans:				
Discount rate	4.20%	4.66%	5.85%	5.65%
Rate of compensation increase [(b)]	4.00%	4.00%	4.00%	4.00%
Healthcare cost trend rate assumed for participants under 65 next year	8.10%	8.40%	8.40%	7.50%
Healthcare cost trend rate assumed for participants over 65 next year	8.10%	8.40%	8.40%	7.90%
Rate that the cost trend rates ultimately declines to	4.50%	4.50%	4.50%	4.00%
Year that the rates reach the terminal rate	2030	2030	2030	2029

(a) The expected return on plan assets is the long-term rate-of-return the Company expects to earn on the plan assets. In developing the expected return on plan asset assumption, the Company evaluated historical investment performance, the plans' asset allocation strategies and return forecasts for each asset class and input from its advisors. Projected returns by such advisors were based on broad equity and fixed income indices. The expected return on plan assets is reviewed annually in conjunction with other plan assumptions and, if considered necessary, revised to reflect changes in the financial markets and the investment strategy. The investment strategy and target allocations of the qualified pension plans previously disclosed in "—Plan Assets, Obligations and Funded Status—Qualified Pension Plan Assets" herein were utilized.

(b) The rate of future increases in compensation assumption only applies to the plans for represented employees as plans for non-represented employees are frozen.

Post-retirement Healthcare Plan Sensitivity. A 1% change in the medical trend rate assumed for post-retirement healthcare benefits at December 31, 2013 would have the following effects (in thousands):

		Increase (Decrease)
1% increase in the medical trend rate:		
Effect on total service cost and interest cost components	$	13,875
Effect on benefit obligation	$	139,346
1% decrease in the medical trend rate:		
Effect on total service cost and interest cost components	$	(10,368)
Effect on benefit obligation	$	(106,622)

The impact of the Medicare Drug Act of 2003 subsidy on the post-retirement healthcare benefits at December 31, 2013 is as follows (in thousands):

		Increase (Decrease)
Change in projected benefit obligation	$	(32,656)
Change in each component of net periodic cost:		
Service cost	$	(1,678)
Interest cost		(1,542)
Amortization of loss		(2,326)
Total change in net periodic cost	**$**	**(5,546)**

Estimated Future Contributions and Benefit Payments

Legislation enacted in 2012 changed the method in determining the discount rate used for calculating a qualified pension plan’s unfunded liability. This act contained a pension funding stabilization provision which allows pension plan sponsors to use higher interest rate assumptions when determining funded status and funding obligations. As a result, the Company's 2013 minimum required pension plan contribution is significantly lower than it would have been in the absence of this stabilization provision. On September 25, 2012, the Company elected to defer use of the higher segment rates under the act until the plan year beginning on January 1, 2013 solely for determination of the adjusted funding target attainment percentage ("AFTAP") used to determine benefit restrictions under Internal Revenue Code (the "Code") Section 436.

Estimated future employer contributions, benefit payments and Medicare prescription drug subsidies expected to offset the future post-retirement healthcare benefit payments as of December 31, 2013 are as follows (in thousands):

		Qualified Pension Plans		Post-retirement Healthcare Plans
Expected employer contributions for fiscal year 2014	$	30,000	$	5,701
Expected benefit payments for fiscal years:				
2014	$	13,970	$	5,701
2015		3,698		6,964
2016		4,901		8,447
2017		6,173		10,091
2018		7,590		11,916
2019-2023		62,355		95,639
Expected subsidy for fiscal years:				
2014			$	—
2015				72
2016				104
2017				154
2018				217
2019-2023				2,535

401(k) Savings Plans

The Company and its subsidiaries sponsor four voluntary 401(k) savings plans that, in the aggregate, cover all eligible Telecom Group employees and Northern New England management employees, and one voluntary 401(k) savings plan that covers all eligible Northern New England represented employees (collectively, "the 401(k) Plans"). Each 401(k) Plan year, the Company contributes an amount of matching contributions to the 401(k) Plans determined by the Company at its discretion for management employees and based on collective bargaining agreements for all other employees. For the 401(k) Plan years ended December 31, 2013, 2012 and 2011, the Company generally matched 100% of each employee's contribution up to 5% of compensation. Total Company contributions to all 401(k) Plans were $9.9 million, $9.8 million, $9.8 million, and $0.7 million for the year ended December 31, 2013, the year ended December 31, 2012, the 341 days ended December 31, 2011 and the 24 days ended January 24, 2011, respectively.

(12) Income Taxes

Income Tax Benefit (Expense)

Income tax benefit (expense) for the year ended December 31, 2013, the year ended December 31, 2012, the 341 days ended December 31, 2011 and the 24 days ended January 24, 2011 consists of the following components (in thousands):

				Predecessor Company
	Year Ended December 31, 2013	Year Ended December 31, 2012	Three Hundred Forty-One Days Ended December 31, 2011	Twenty-Four Days Ended January 24, 2011
Current:				
Federal	$ (924)	$ —	$ 913	$ —
State and local	(3,154)	(1,218)	160	(21)
Total current income tax (expense) benefit	**(4,078)**	**(1,218)**	**1,073**	**(21)**
Investment tax credits	—	—	—	—
Deferred:				
Federal	77,341	77,010	49,001	(247,844)
State and local	17,028	19,768	3,202	(32,024)
Total deferred income tax benefit (expense)	**94,369**	**96,778**	**52,203**	**(279,868)**
Total income tax benefit (expense)	**$ 90,291**	**$ 95,560**	**$ 53,276**	**$ (279,889)**

Total income tax (expense) benefit was different than that computed by applying United States federal income tax rates to (loss) income before income taxes for the year ended December 31, 2013, the year ended December 31, 2012, the 341 days ended December 31, 2011 and the 24 days ended January 24, 2011.

For the year ended December 31, 2013, the effective tax rate to calculate the tax benefit on $193.8 million of pre-tax loss was 46.6%. The rate differs from the 35% federal statutory rate primarily due to state taxes, as well as a decrease to the valuation allowance.

For the year ended December 31, 2012, the effective tax rate to calculate the tax benefit on $248.9 million of pre-tax loss was 38.4%. The rate differs from the 35% federal statutory rate primarily due to state taxes as well as favorable provision to return permanent adjustments, offset by an increase to the valuation allowance.

For the 341 days ended December 31, 2011, the effective tax rate to calculate the tax benefit on $468.2 million of pre-tax loss was 11.4%. The rate differs from the 35% federal statutory rate primarily due to an impairment charge reducing the carrying value of the Company's goodwill to zero and an increase in the Company's valuation allowance.

For the 24 days ended January 24, 2011, the effective tax rate to calculate the tax expense on $866.8 million of pre-tax income was 32.3%. The rate differs from the 35% federal statutory rate primarily due to the release of the valuation allowance and other miscellaneous reorganization adjustments.

A reconciliation of the Company's statutory tax rate to its effective tax rate is presented below (in percentages):

				Predecessor Company
	Year Ended December 31, 2013	Year Ended December 31, 2012	Three Hundred Forty-One Days Ended December 31, 2011	Twenty-Four Days Ended January 24, 2011
Statutory federal income tax (benefit) rate	**(35.0) %**	**(35.0) %**	**(35.0) %**	**35.0 %**
State income tax (benefit) expense, net of federal income tax (benefit) expense	(4.8)	(4.8)	(4.0)	4.3
Post-petition interest	—	—	—	0.4
Goodwill impairment	—	—	16.2	13.7
Non-taxable debt cancellation income	—	—	(9.3)	(12.3)
Restructuring charges	—	0.1	0.3	0.3
Other, net	0.6	(0.1)	1.2	(0.2)
Valuation allowance	(7.4)	1.4	19.2	(8.9)
Effective income tax (benefit) rate	**(46.6) %**	**(38.4) %**	**(11.4) %**	**32.3 %**

Deferred Income Taxes

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and deferred tax liabilities as of December 31, 2013 and 2012 are presented below (in thousands):

	December 31, 2013	December 31, 2012
Deferred tax assets:		
Federal and state tax loss carryforwards	$ 76,570	$ 75,744
Employee benefits	313,760	347,567
Allowance for doubtful accounts	5,290	7,709
Alternative minimum tax and other state credits	4,925	4,531
Capitalized restructuring costs	3,973	4,672
Accrued professional services	3,838	2,553
Service quality rebate reserve	308	2,449
Other, net	8,938	7,336
Total gross deferred tax assets	**417,602**	**452,561**
Deferred tax liabilities:		
Property, plant, and equipment	269,908	320,534
Goodwill and other intangible assets	36,121	39,856
Other, net	12,498	10,664
Total gross deferred tax liabilities	**318,527**	**371,054**
Net deferred tax assets (liabilities) before valuation allowance	**99,075**	**81,507**
Valuation allowance	(166,773)	(192,492)
Net deferred tax liabilities	**$ (67,698)**	**$ (110,985)**

At December 31, 2013, the Company had gross federal NOL carryforwards of $200.4 million after taking into consideration the NOL tax attribute reduction of $581.8 million resulting from the Company's discharge of indebtedness upon emergence from Chapter 11 protection. The Company's remaining federal NOL carryforwards will expire from 2021 to 2033. The Company's remaining state NOL carryforwards will expire from 2015 to 2033. At December 31, 2013, the Company had a net, after attribute reduction, state NOL deferred tax asset of $10.2 million. At December 31, 2013, the Company had no alternative minimum tax credit carryover and had $4.9 million in state credit carryovers. Telecom Group completed an initial public offering on February 8, 2005, which resulted in an "ownership change" within the meaning of the United States federal income tax laws addressing NOL carryforwards, alternative minimum tax credits and other similar tax attributes. The Merger and the Company's emergence from Chapter 11 protection also resulted in ownership changes. As a result of these ownership changes, there are specific limitations on the Company's ability to use its NOL carryforwards and other tax attributes. The Company believes it can use the NOLs even with these restrictions in place based on its current income projections.

During the 24 days ended January 24, 2011 the Predecessor Company excluded from taxable income $1,045.4 million of income from the discharge of indebtedness as defined under Section 108 of the Code. There was no additional income from the discharge of indebtedness for the 341 days ended December 31, 2011 or the year ended December 31, 2012; however, the Company did recognize additional tax benefits due to a change in the amount of its deferred tax liability for these periods, respectively, related to a tax attribute reduction from the discharge of indebtedness. Section 108 of the Code excludes from taxable income the amount of indebtedness discharged under a Chapter 11 case. Section 108 of the Code also requires a reduction of tax attributes equal to the amount of excluded taxable income to be made on the first day of the tax year following the emergence from bankruptcy. During 2012, the Company finalized the calculation of attribute reduction for federal and state income tax purposes.

Valuation Allowance. At December 31, 2013 and 2012, the Company established a valuation allowance against its deferred tax assets of $166.8 million and $192.5 million, respectively, which consist of a $136.4 million and $159.5 million federal allowance, respectively, and a $30.4 million and $33.0 million state allowance, respectively. During 2013 and 2012, a decrease in the Company's valuation allowance of approximately $10.9 million and an increase of approximately $13.8 million, respectively, was allocated to accumulated other comprehensive loss in the consolidated balance sheets. During 2013, as a result of the Company's change in the estimated useful lives for certain fixed assets and change in realizability of certain state credits, the Company recognized a $14.8 million reduction in the beginning of the year valuation allowance that was allocated to continuing operations.

The following is activity in the Company's valuation allowance for the year ended December 31, 2013, the year ended December 31, 2012, the 341 days ended December 31, 2011 and the 24 days ended January 24, 2011 (in thousands):

				Predecessor Company
	Year Ended December 31, 2013	Year Ended December 31, 2012	Three Hundred Forty-One Days Ended December 31, 2011	Twenty-Four Days Ended January 24, 2011
Balance, beginning of period	**$ (192,492)**	**$ (172,875)**	**$ (28,519)**	**$ (105,554)**
(Increase) decrease allocated to other comprehensive loss	10,884	(13,804)	(54,278)	—
(Increase) decrease allocated to continuing operations	14,835	(5,813)	(90,078)	77,035
Balance, end of period	**$ (166,773)**	**$ (192,492)**	**$ (172,875)**	**$ (28,519)**

Unrecognized Tax Benefits. As of December 31, 2013, the Company's total unrecognized tax benefits were $4.9 million. Of the $4.9 million, $3.8 million was recorded as a reduction of the Company's federal and state NOL carryforwards and $1.1 million was recorded as a current state tax liability. The total unrecognized tax benefits that, if recognized, would affect the effective tax rate were $4.5 million. The Company does not expect a significant increase or decrease in its unrecognized tax benefits during the next twelve months. A reconciliation of the beginning and ending amount of unrecognized tax benefits is as follows (in thousands):

Balance as of December 31, 2011	**$ 2,893**
Additions for tax positions related to the current year	170
Additions for tax positions of prior years	722
Balance as of December 31, 2012	**$ 3,785**
Additions for tax positions related to the current year	11
Additions for tax positions of prior years	1,059
Balance as of December 31, 2013	**$ 4,855**

The Company recognizes any interest and penalties accrued related to unrecognized tax benefits in income tax expense. During the year ended December 31, 2013, the year ended December 31, 2012, the 341 days ended December 31, 2011 and the 24 days ended January 24, 2011, the Company did not make any payment of interest and penalties. There was nothing accrued in the consolidated balance sheets for the payment of interest and penalties at December 31, 2013 and 2012, respectively, as the remaining unrecognized tax benefits would only serve to reduce the Company's current federal and state NOL carryforwards, if ultimately recognized.

Income Tax Returns

The Company and its eligible subsidiaries file consolidated income tax returns in the United States federal jurisdiction and certain consolidated, combined and separate entity tax returns, as required, with various state and local governments. The Company is no longer subject to United States federal, state and local, or non-United States income tax examinations by tax authorities for years prior to 2009. NOL carryovers from closed tax years may be subject to examination by federal or state taxing authorities if utilized in a year open to examination. As of December 31, 2013 and 2012, respectively, the Company does not have any significant jurisdictional tax audits.

(13) Accumulated Other Comprehensive Loss

Components of accumulated other comprehensive loss, net of income tax, were as follows (in thousands):

In thousands	December 31, 2013	December 31, 2012
Accumulated other comprehensive loss, net of taxes:		
Change in the fair value of interest rate swaps	$ (601)	$ —
Qualified pension and post-retirement healthcare plans	(159,178)	(255,989)
Total accumulated other comprehensive loss	**$ (159,779)**	**$ (255,989)**

Other comprehensive (loss) income for the year ended December 31, 2013 includes changes in the fair value of the Company's cash flow hedges and actuarial losses related to the qualified pension and post-retirement healthcare plans arising during the respective periods and amortization of these actuarial losses. Other comprehensive (loss) income for the year ended December 31, 2012, the 341 days ended December 31, 2011 and the 24 days ended January 24, 2011 includes actuarial losses arising during the respective periods and amortization of these actuarial losses. For further detail of amounts recognized in other comprehensive (loss) income related to the cash flow hedges, see note (9) "Interest Rate Swap Agreements" herein. For further detail of amounts recognized in other comprehensive (loss) income related to the qualified pension and post-retirement healthcare plans, *see* note (11) "Employee Benefit Plans—Plan Assets, Obligations and Funded Status—Other Comprehensive Loss (Income)" herein.

The following table provides a reconciliation of adjustments reclassified from accumulated other comprehensive loss to the statement of operations (in thousands):

	Year Ended December 31, 2013
Employee benefits:	
Amortization of actuarial loss [a]	$ 12,983
Plan settlement [a]	1,683
Total employee benefit amounts reclassified from accumulated other comprehensive loss	14,666
Tax expense	(4,696)
Total employee benefit amounts reclassified from accumulated other comprehensive loss, net	$ 9,970

(a) These accumulated other comprehensive loss components are included in the computation of net periodic benefit cost. *See* note (11) "Employee Benefit Plans" for details.

There were no amounts reclassified from accumulated other comprehensive loss related to interest rate swaps for the year ended December 31, 2013.

(14) Earnings Per Share

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

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

	Year Ended December 31, 2013	Year Ended December 31, 2012	Three Hundred Forty-One Days Ended December 31, 2011	Predecessor Company Twenty-Four Days Ended January 24, 2011
Weighted average number of common shares used for basic earnings per share [(a)]	26,189,668	25,987,483	25,837,992	89,423,668
Effect of potential dilutive shares [(b)]	—	—	—	271,799
Weighted average number of common shares and potential dilutive shares used for diluted earnings per share	**26,189,668**	**25,987,483**	**25,837,992**	**89,695,467**
Anti-dilutive shares outstanding at period-end that are excluded from the above reconciliation [(c)]	5,284,459	4,954,778	4,764,194	711,642

(a) Weighted average number of common shares used for basic earnings per share excludes 278,681, 245,602, 355,383 and 16,666 weighted average shares of non-vested restricted stock as of the year ended December 31, 2013, the year ended December 31, 2012, the 341 days ended December 31, 2011 and the 24 days ended January 24, 2011, respectively. Non-vested restricted stock is included in common shares issued and outstanding in the consolidated balance sheets.

(b) Since the Company incurred a loss for the year ended December 31, 2013, the year ended December 31, 2012 and the 341 days ended December 31, 2011, all potentially dilutive securities are anti-dilutive for these periods and, therefore, are excluded from the determination of diluted earnings per share.

(c) Anti-dilutive shares outstanding at period-end that are excluded from the above reconciliation include warrants, non-vested restricted stock and stock options issued under the Long Term Incentive Plan (as defined hereinafter in note (16) "Stock-Based Compensation").

(15) Stockholders' Deficit

On the Effective Date, the Company issued 25,659,877 shares of common stock and 3,458,390 warrants to purchase common stock and established a reserve which set aside 610,309 shares of common stock and 124,012 warrants for satisfaction of certain pending claims related to the Chapter 11 Cases (the "Equity Claims Reserve"). During the year ended December 31, 2012, the Company distributed 69,194 shares of common stock and 117,943 warrants from the Equity Claims Reserve in full satisfaction of allowed claims, thereby completing the common stock and warrant distribution with respect to the Plan.

At December 31, 2013, 37,500,000 shares of common stock were authorized and 26,480,837 shares of common stock (including shares of non-vested restricted stock) and 3,582,402 warrants, each eligible to purchase one share of common stock, were outstanding.

The initial exercise price applicable to the warrants is $48.81 per share of common stock. The exercise price applicable to the warrants is subject to adjustment upon the occurrence of certain events described in the Warrant Agreement. The warrants may be exercised at any time on or before the seventh anniversary of the Effective Date.

(16) Stock-Based Compensation

Stock-based compensation expense recognized in the financial statements is as follows (in thousands):

							Predecessor Company	
	Year Ended December 31, 2013		Year Ended December 31, 2012		Three Hundred Forty-One Days Ended December 31, 2011		Twenty-Four Days Ended January 24, 2011	
Amounts charged against income, before income tax benefit	$	5,807	$	4,055	$	3,810	$	5,499
Amount of related income tax benefit recognized in income		(2,326)		(1,656)		(1,552)		(2,220)
Total net income impact	**$**	**3,481**	**$**	**2,399**	**$**	**2,258**	**$**	**3,279**

At December 31, 2013, the Company had $1.6 million of stock-based compensation cost related to non-vested awards that will be recognized over a weighted average period of 1.60 years, all of which is related to awards granted under the FairPoint Communications, Inc. 2010 Long Term Incentive Plan (the "Long Term Incentive Plan").

Long Term Incentive Plan

The Long Term Incentive Plan provides for grants of up to 3,134,603 shares of common stock awards, of which stock options and restricted stock awards can be granted. Pursuant to the terms of the Long Term Incentive Plan, if the consolidated enterprise value of the Company (as defined in the Long Term Incentive Plan) does not equal or exceed $2.3 billion on or prior to the expiration of the warrants, then the aggregate number of shares available for issuance of future awards will be automatically reduced by 310,326 shares. As of December 31, 2013, there are 972,399 shares available for grant under the Long Term Incentive Plan prior to the share reduction clause noted in the Long Term Incentive Plan. Each stock option or restricted stock award granted reduces the availability under the Long Term Incentive Plan by one share. Upon the exercise of each stock option or vesting of each restricted share award, one new share of common stock will be issued.

On the Effective Date, certain of the Company's employees, a consultant of the Company and members of the board of directors were granted stock options and/or restricted stock awards. The restricted stock awards granted to the consultant of the Company were 100% vested on the Effective Date. The remaining restricted stock awards and stock options granted to the Company's employees and members of the board of directors on the Effective Date vested 25% immediately, with the remainder of these awards to vest in three equal annual installments, commencing on the first anniversary of the Effective Date, with accelerated vesting upon (x) a change in control or (y) a termination of an award holder's employment either without cause (but only to the extent the vesting becomes at least 50%, plus an additional 25% for each full year of the award holder's employment after the first full year after the Effective Date) or due to the award holder's death or disability (but, for stock options, only to the extent vesting would have otherwise occurred within one year following such termination of employment).

Subsequent to the Effective Date, through December 31, 2013, the Company has granted additional shares of restricted stock and stock options with one of the following vesting terms: (i) vest immediately; (ii) vest 100% on the first anniversary; (iii) vest over three equal annual installments, with one-third vesting on the first anniversary of the grant date and one-third on the second and third anniversaries thereafter or (iv) vest 25% immediately and 25% on the first, second and third anniversaries thereafter.

Stock Options. Stock options have a term of 10 years from the date of grant; however, vested stock options will generally expire 90 days after an employee's termination with the Company, unless the Company is in a blackout period. Stock option activity under the Long Term Incentive Plan is summarized as follows:

	Options Outstanding		Weighted Average Exercise Price Per Share	Weighted Average Remaining Contractual Life (in years)
Outstanding at January 24, 2011 (Predecessor Company)	—		—	
Granted [a]	991,012	$	24.29	
Exercised	—	$	—	
Forfeited	—	$	—	
Expired	—		—	
Outstanding at January 24, 2011 (Post-emergence entity)	**991,012**		**24.29**	
Granted [a]	26,600	$	24.29	
Exercised	—		—	
Forfeited	(69,875)	$	24.29	
Expired	—		—	
Outstanding at December 31, 2011	**947,737**	**$**	**24.29**	
Granted [a]	347,880	$	4.82	
Exercised	(14,212)		4.51	
Forfeited	(87,783)		19.32	
Expired	(63,793)		23.96	
Outstanding at December 31, 2012	**1,129,829**	**$**	**18.95**	
Granted [a]	368,016	$	9.37	
Exercised [b]	(18,750)	$	4.63	
Forfeited	(41,893)	$	11.95	
Expired	(38,079)	$	22.29	
Outstanding at December 31, 2013	**1,399,123**	**$**	**16.74**	**7.6**
Exercisable at December 31, 2013 [c]	**823,012**	**$**	**19.57**	**6.9**
Vested and Expected to Vest at December 31, 2013 [d]	**1,399,123**	**$**	**16.74**	**7.6**

(a) During the years ended December 31, 2013 and December 31, 2012, the 341 days ended December 31, 2011 and the 24 days ended January 24, 2011, the weighted average grant date fair value of stock options granted was $1.5 million, $0.7 million, $0.1 million and $8.1 million, respectively. For purposes of determining compensation expense, the grant date fair value per share of the stock options was estimated using the Black-Scholes option pricing model which requires the use of various assumptions including the expected life of the option, expected dividend rate, expected volatility and risk-free interest rate. Key assumptions used for determining the fair value of stock options granted were as follows:

				Predecessor Company
	Year Ended December 31, 2013	Year Ended December 31, 2012	Three Hundred Forty-One Days Ended December 31, 2011	Twenty-Four Days Ended January 24, 2011
Expected life [1]	5.5 - 6 years	5.75 - 6 years	10 years	5.75 years
Expected dividend [2]	—	—	—	—
Expected volatility [3]	45%	45%	45%	45%
Risk-free interest rate [4]	0.77% - 1.92%	0.82% - 1.21%	2.29% & 3.17%	2.37%

(1) The 5.5-year, 5.75-year and 6.00-year expected lives (estimated period of time outstanding) of stock options granted were estimated using the ‘Simplified Method' which utilizes the midpoint between the vesting date

and the end of the contractual term. This method was utilized for the stock options due to the lack of historical exercise behavior of the Company's employees. The 10.00-year expected life of stock options granted during the 341 days ended December 31, 2011 was based on an expectation of the estimated period of time the Company believed the stock options granted to an employee during this time period would be outstanding upon an analysis of stock options' strike price.

(2) For all stock options granted during 2011, 2012 and 2013, no dividends are expected to be paid over the contractual term of the stock options resulting in the use of a zero expected dividend rate.

(3) The expected volatility rate is based on the observed historical and implied volatilities of comparable companies, which were adjusted to account for the various differences between the comparable companies and the Company.

(4) The risk-free interest rate is specific to the date of grant. On the Effective Date, the risk-free interest rate was interpolated from the yields on the 5-year and 7-year United States Treasury bonds. For stock options granted after the Effective Date, the risk-free interest rate is based on the United States Treasury 10-year constant maturity market yield in effect at the time of the grant.

(b) During the years ended December 31, 2013 and 2012, the total intrinsic value of stock options that were exercised was negligible.

(c) Based upon a fair market value of the common stock as of December 31, 2013 of $11.31 per share, the stock options that are exercisable have an aggregate intrinsic value (equal to the value of in-the-money stock options above their respective exercise price) of $1.0 million.

(d) Based upon a fair market value of the common stock as of December 31, 2013 of $11.31 per share, the stock options that have vested and are expected to vest have an aggregate intrinsic value (equal to the value of in-the-money stock options above their respective exercise price) of $2.5 million.

Based upon the respective grant fair value, the aggregate fair value of stock options that vested during the years ended December 31, 2013 and December 31, 2012, the 341 days ended December 31, 2011 and the 24 days ended January 24, 2011 was $2.2 million, $2.0 million, $0.1 million and $2.0 million, respectively.

Restricted Stock Awards. Restricted stock award activity under the Long Term Incentive Plan is summarized as follows:

	Awards Outstanding		Weighted Average Grant Date Fair Value Per Share
Non-vested at January 24, 2011 (Predecessor entity)	—		—
Granted [(a)]	547,792	$	18.53
Vested [(b)]	(187,044)		18.53
Forfeited	—		—
Non-vested at January 24, 2011 (Post-emergence entity)	**360,748**	**$**	**18.53**
Granted [(a)]	13,800	$	11.52
Vested [(b)]	(4,900)		17.87
Forfeited	(17,650)		18.53
Non-vested at December 31, 2011	**351,998**	**$**	**18.26**
Granted [(a)]	30,000	$	5.51
Vested [(b)]	(116,202)	$	18.26
Forfeited	(21,550)	$	18.49
Non-vested at December 31, 2012	**244,246**	**$**	**16.65**
Granted (a)	184,610	$	9.46
Vested (b)	(157,318)	$	15.24
Forfeited	(6,883)	$	10.43
Non-vested at December 31, 2013	**264,655**	**$**	**12.64**

(a) Except for the restricted stock awards granted on the Effective Date, the grant date fair value per share of the restricted stock awards under the Long Term Incentive Plan is calculated as the fair market value per share of the common stock on the date of grant. The grant date fair value per share of the restricted stock awarded on the Effective Date is equal to the fair value per share of the Company's common stock calculated in conjunction with fresh start accounting. During the year ended December 31, 2013, the year ended December 31, 2012, the 341 days ended December 31, 2011 and the 24 days ended January 24, 2011, the weighted average grant date fair value of restricted stock awards granted was $1.7 million, $0.2 million, $0.2 million and $10.2 million, respectively.

(b) Based upon the respective grant date fair value, the aggregate fair value of restricted stock which vested during the year ended December 31, 2013, the year ended December 31, 2012, the 341 days ended December 31, 2011 and the 24 days ended January 24, 2011 was $2.4 million, $2.1 million, $0.1 million and $3.5 million, respectively.

Stock-Based Compensation Plans of the Predecessor Company

Prior to the Effective Date, the Company had stock options, stock units, non-vested stock and restricted stock activity under various stock-based compensation plans of the Predecessor Company. Pre-tax stock compensation expense recognized during the 24 days ended January 24, 2011 for the Predecessor Company was immaterial.

Pursuant to the Plan, all then outstanding equity interests of the Company, including but not limited to all outstanding shares of common stock, options and contractual or other rights to acquire any equity interests, were canceled and extinguished on the Effective Date.

(17) Business Concentrations

Geographic

As of December 31, 2013, approximately 85% of the Company's access line equivalents were located in Maine, New Hampshire and Vermont. As a result of this geographic concentration, the 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 Company's services and a resulting loss of access line equivalents which could have a material adverse effect on the Company's business, financial condition, results of operations, liquidity and/or the market price of the Company's outstanding securities.

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

Labor

As of December 31, 2013, we employed a total of 3,171 employees, 2,017, or 64%, of whom were covered by 14 collective bargaining agreements. As of December 31, 2013, approximately 1,800 employees were covered by three collective bargaining agreements that expire during 2014.

(18) Operational Restructuring Charges

During the 341 days ended December 31, 2011, the Company announced plans to reduce its workforce to ensure that the Company was staffed at a level appropriate to serve its customers, while prudently managing expenses. The reduction eliminated approximately 400 positions. In connection with this plan, the Company recognized $7.9 million in restructuring charges, consisting of severance and one-time incentive payments, which are included within cost of services and sales and selling, general and administrative expense in the consolidated statement of operations.

(19) Assets Held for Sale and Discontinued Operations

On November 28, 2012, the Company entered into an agreement to sell the capital stock of its Idaho-based operations to Blackfoot Telecommunications Group ("Blackfoot") of Missoula, Montana. The closing of the transaction was completed on January 31, 2013 for $30.5 million in gross cash proceeds. Eleven FairPoint employees joined the Blackfoot organization at closing. The Company recorded a gain, before $6.7 million of income taxes, of $16.7 million upon the closing of the transaction, which is reported within discontinued operations in the consolidated statement of operations for the year ended December 31, 2013. Due to differences between the book and tax basis of the Idaho-based operations, the gain reported on the sale for income tax purposes will be $27.1 million.

The Idaho-based operations' assets and liabilities have been classified as held for sale and were recorded as single line items in the current asset and current liability sections of the consolidated balance sheet at December 31, 2012. A summary of assets and liabilities held for sale at December 31, 2012 is as follows (in thousands):

	December 31, 2012
Assets held for sale:	
Accounts receivable, net	$ 261
Prepaid expenses	37
Other current assets	3
Property, plant and equipment (net of $4.6 million accumulated depreciation)	6,441
Other assets	5,807
Total assets held for sale	**$ 12,549**
Liabilities held for sale:	
Accounts payable	$ 137
Other accrued liabilities	148
Other long-term liabilities	122
Total liabilities held for sale	**$ 407**

The Idaho-based operations are immaterial to the financial results of the consolidated Company and therefore have not been segregated as discontinued operations in the consolidated statements of operations. Revenue and income before income taxes of the Idaho-based operations for the years ended December 31, 2013 and December 31, 2012, the 341 days ended December 31, 2011 and the 24 days ended January 24, 2011 are as follows (in thousands):

				Predecessor Company
	Year Ended December 31, 2013 (a)	Year Ended December 31, 2012	Three Hundred Forty-One Days Ended December 31, 2011	Twenty-Four Days Ended January 24, 2011
Revenue	$ 674	$ 7,874	$ 7,745	$ 626
Income before income taxes	477	3,813	3,363	3,420

(a) Reflects revenue and income before income taxes of the Idaho-based operations for the period of January 1, 2013 through the completion of the transaction on January 31, 2013.

(20) Commitments and Contingencies

(a) Leases

The Company currently leases real estate and fleet vehicles under capital and operating leases expiring through the year ending 2023. The Company accounts for leases using the straight-line method, which amortizes contracted total payments evenly over the lease term.

Future minimum lease payments under capital leases and non-cancelable operating leases as of December 31, 2013 are as follows (in thousands):

	Capital Leases	Operating Leases
Year ending December 31:		
2014	$ 1,625	$ 9,144
2015	237	6,516
2016	132	4,832
2017	132	3,546
2018	44	1,968
Thereafter	—	610
Total minimum lease payments	**$ 2,170**	**$ 26,616**
Less: interest and executory cost	(278)	
Present value of minimum lease payments	**1,892**	
Less: current installments	(1,445)	
Long-term obligations at December 31, 2013	**$ 447**	

Total rent expense was $12.5 million, $12.5 million, $14.5 million and $1.0 million for the year ended December 31, 2013, the year ended December 31, 2012, the 341 days ended December 31, 2011 and the 24 days ended January 24, 2011, respectively.

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

(b) Legal Proceedings

From time to time, the Company is involved in litigation and regulatory proceedings arising out of its operations. The Company's management believes that it is not currently a party to any legal or regulatory proceedings, the adverse outcome of which, individually or in the aggregate, would have a material adverse effect on the Company's financial position or results of operations. Notwithstanding that the Company emerged from Chapter 11 protection on the Effective Date, one of the Chapter 11 Cases is still being resolved.

On the Petition Date, FairPoint Communications and substantially all of its direct and indirect subsidiaries filed voluntary petitions for relief under the Chapter 11 Cases. On January 13, 2011, the Bankruptcy Court entered the Confirmation Order, which confirmed the Plan. On the Effective Date, the Company substantially consummated the reorganization through a series of transactions contemplated by the Plan and the Plan became effective pursuant to its terms.

On June 30, 2011 and on November 7, 2012, the Bankruptcy Court entered final decrees closing certain of the Company's bankruptcy cases due to such cases being fully administered. Of the 80 original bankruptcy cases, only the Chapter 11 Case of Northern New England Telephone Operations LLC (Case No. 09-16365) remains open.

(c) Restricted Cash

As of December 31, 2013, the Company had $1.2 million of restricted cash, of which $0.1 million is reserved for the Cash Claims Reserve, $0.4 million is reserved for broadband build-out in New Hampshire and $0.7 million is restricted for other purposes. During 2013, $0.6 million of the Cash Claims Reserve was released due to favorable resolution of claims, $2.8 million of restricted cash reserved for broadband build-out in Vermont was utilized and $2.9 million of restricted cash reserved for broadband build-out in New Hampshire was utilized.

(21) Quarterly Financial Information (Unaudited)

The quarterly information presented below represents selected quarterly financial results for the quarters ended March 31, June 30, September 30 and December 31, 2013 and 2012 (in thousands, except per share data).

2013:	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Revenue	$ 235,469	$ 234,500	$ 235,989	$ 233,396
Gain on sale of discontinued operations, net of tax	10,044	—	—	—
Net income (loss)	(47,485)	(43,108)	(8,960)	6,103
(Loss) earnings per share, basic:				
Continuing operations	$ (2.20)	$ (1.64)	$ (0.34)	$ 0.23
Discontinued operations	0.38	—	—	—
(Loss) earnings per share, basic	$ (1.82)	$ (1.64)	$ (0.34)	$ 0.23
(Loss) earnings per share, diluted:				
Continuing operations	$ (2.20)	$ (1.64)	$ (0.34)	$ 0.23
Discontinued operations	0.38	—	—	—
(Loss) earnings per share, diluted	$ (1.82)	$ (1.64)	$ (0.34)	$ 0.23

2012:	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Revenue	$ 248,474	$ 243,453	$ 242,052	$ 239,670
Net loss	(46,712)	(37,073)	(37,329)	(32,180)
Loss per share:				
Basic	$ (1.80)	$ (1.43)	$ (1.44)	$ (1.24)
Diluted	(1.80)	(1.43)	(1.44)	(1.24)

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

ITEM 9A. CONTROLS AND PROCEDURES

(a) Evaluation of Disclosure Controls and Procedures

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

Based upon this evaluation, our principal executive officer and principal financial officer have concluded that our disclosure controls and procedures were effective as of December 31, 2013.

(b) Changes in Internal Control Over Financial Reporting

We are committed to continuing to improve our internal control processes and will continue to review our financial reporting controls and procedures. As we continue to evaluate and work to improve our internal control over financial reporting, we may identify additional measures to address previous material weaknesses and other deficiencies. Our management, with the oversight of the audit committee of our board of directors, will continue to assess and take steps to enhance the overall design and capability of our control environment in the future.

There have been no changes in our internal control over financial reporting during the year ended December 31, 2013 that have materially affected or are reasonably likely to materially affect our internal control over financial reporting.

See "Item 8. Financial Statements and Supplementary Data" included elsewhere in this Annual Report for the Report of Management on Internal Control over Financial Reporting and the Report of Independent Registered Public Accounting Firm on Internal Control over Financial Reporting, each of which is incorporated herein by reference.

ITEM 9B. OTHER INFORMATION

Not applicable.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

The information required by Items 401, 405, 406 and 407(c)(3), (d)(4) and (d)(5) of Regulation S-K is incorporated herein by reference to our definitive proxy statement to be filed with the SEC pursuant to Regulation 14A under the Exchange Act.

ITEM 11. EXECUTIVE COMPENSATION

The information required by Item 402 and paragraph (e)(4) and (e)(5) of Item 407 of Regulation S-K is incorporated herein by reference to our definitive proxy statement to be filed with the SEC pursuant to Regulation 14A under the Exchange Act.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

The information required by Item 201(d) of Regulation S-K is incorporated herein by reference to "Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities—Securities Authorized for Issuance under Equity Compensation Plans" included elsewhere in this Annual Report. The information required by Item 403 of Regulation S-K is incorporated herein by reference to our definitive proxy statement to be filed with the SEC pursuant to Regulation 14A under the Exchange Act

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

The information required by Items 404 and 407(a) of Regulation S-K is incorporated herein by reference to our definitive proxy statement to be filed with the SEC pursuant to Regulation 14A under the Exchange Act.

ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

The information required by Item 9(e) of Schedule 14A is incorporated herein by reference to our definitive proxy statement to be filed with the SEC pursuant to Regulation 14A under the Exchange Act.

PART IV

ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES

(a) Financial Statements

The financial statements filed as part of this Annual Report are listed in the index to the financial statements under "Item 8. Financial Statements and Supplementary Data" included elsewhere in this Annual Report, which index to the financial statements is incorporated herein by reference.

(b) Exhibits

The exhibits filed as part of this Annual Report are listed in the index to exhibits found hereafter, which index to exhibits is incorporated herein by reference.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

FAIRPOINT COMMUNICATIONS, INC.

By: /s/ Paul H. Sunu Date: March 5, 2014
Paul H. Sunu, Chief Executive Officer and Director

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

By: /s/ Paul H. Sunu Date: March 5, 2014
Paul H. Sunu, Chief Executive Officer and Director
(Principal Executive Officer)

By: /s/ Ajay Sabherwal Date: March 5, 2014
Ajay Sabherwal, Executive Vice President and Chief Financial Officer
(Principal Financial Officer)

By: /s/ John T. Hogshire Date: March 5, 2014
John T. Hogshire, Vice President and Controller
(Principal Accounting Officer)

By: /s/ Dennis J. Austin Date: March 5, 2014
Dennis J. Austin, Director

By: /s/ Peter C. Gingold Date: March 5, 2014
Peter C. Gingold, Director

By: /s/ Edward D. Horowitz Date: March 5, 2014
Edward D. Horowitz, Chairman of the Board of Directors

By: /s/ Michael J. Mahoney Date: March 5, 2014
Michael J. Mahoney, Director

By: /s/ Michael K. Robinson Date: March 5, 2014
Michael K. Robinson, Director

By: /s/ David L. Treadwell Date: March 5, 2014
David L. Treadwell, Director

By: /s/ Wayne Wilson Date: March 5, 2014
Wayne Wilson, Director

Exhibit Index

Exhibit No.	Description
2.1	Third Amended Joint Plan of Reorganization Under Chapter 11 of the Bankruptcy Code.(1)
3.1	Ninth Amended and Restated Certificate of Incorporation of FairPoint.(2)
3.2	Second Amended and Restated By Laws of FairPoint.(2)
4.1	Warrant Agreement, dated as of January 24, 2011, by and between FairPoint and The Bank of New York Mellon.(3)
4.2	Specimen Stock Certificate.(2)
4.3	Specimen Warrant Certificate.(3)
4.4	Indenture, dated as February 14, 2013, among FairPoint, the subsidiary guarantors party thereto, U.S. Bank National Association, as trustee, and U.S. Bank National Association, as collateral agent. (18)
4.5	First Supplemental Indenture dated as of September 16, 2013, among FairPoint, the subsidiary guarantors party thereto and U.S. Bank National Association, as trustee. (21)
10.1	Security Agreement, dated as of February 14, 2013, among FairPoint, the subsidiary guarantors party thereto and U.S. Bank National Association, as collateral agent.(18)
10.2	Pledge Agreement, dated as of February 14, 2013, among FairPoint, the subsidiary guarantors party thereto and U.S. Bank National Association, as collateral agent.(18)
10.3	Credit Agreement, dated as of February 14, 2013, among FairPoint, the lenders party thereto from time to time and Morgan Stanley Senior Funding, Inc., as administrative agent and letter of credit issuer. (18)
10.4	Pledge Agreement, dated as of February 14, 2013, made by FairPoint and the subsidiary guarantors party thereto in favor of Morgan Stanley Senior Funding, Inc., as administrative agent. (18)
10.5	Security Agreement, dated as of February 14, 2013, among FairPoint, the subsidiary guarantors party thereto and Morgan Stanley Senior Funding, Inc., as administrative agent. (18)
10.6	Continuing Guaranty, dated as of February 14, 2013, made by the subsidiary guarantors party thereto in favor of Morgan Stanley Senior Funding, Inc., as administrative agent. (18)
10.7	Registration Rights Agreement, dated as of January 24, 2011, by and between FairPoint Communications, Inc. and Angelo, Gordon & Co., L.P.(3)
10.8	FairPoint Litigation Trust Agreement, dated as of January 24, 2011.(3)
10.9	Form of Director Indemnity Agreement.(4)
10.10	Amended and Restated Tax Sharing Agreement, dated as of November 9, 2000, by and among FairPoint and its subsidiaries.(5)
10.11	Amended and Restated Employment Agreement, dated as of April 9, 2013, by and between FairPoint and Paul H. Sunu.†(20)
10.12	Employment Agreement, made and entered into as of January 22, 2013, by and between FairPoint and Ajay Sabherwal. † (19)
10.13	Employment Agreement, made and entered into as of January 22, 2013, by and between FairPoint and Shirley J. Linn. † (19)
10.14	Employment Agreement, made and entered into as of January 22, 2013, by and between FairPoint and Peter G. Nixon. † (19)
10.15	Employment Agreement, made and entered into as of November 15, 2012, by and between FairPoint and Anthony A. Tomae. † (19)

Exhibit No.	Description
10.16	Employment Agreement, made and entered into as of July 1, 2011 by and between FairPoint and Kenneth W. Amburn. † *
10.17	Employment Agreement made and entered into as of May 30, 2012, by and between FairPoint and Rosemary M. Hauser. † *
10.18	FairPoint Communications, Inc. 2010 Long Term Incentive Plan.†(1)
10.19	Form of Restricted Share Award Agreement—FairPoint Communications, Inc. 2010 Long Term Incentive Plan.†(1)
10.20	FairPoint Communications, Inc. Incentive Recoupment Policy. †(16)
10.21	Stipulation filed with the Maine Public Utilities Commission, dated December 12, 2007.(6)
10.22	Amended Stipulation filed with the Maine Public Utilities Commission dated December 21, 2007(7)
10.23	Stipulation filed with the Vermont Public Service Board, dated January 8, 2008.(8)
10.24	Stipulation filed with the New Hampshire Public Utilities Commission, dated January 23, 2008.(9)
10.25	Post Filing Regulatory Settlement—New Hampshire, dated as of February 5, 2010, by and between FairPoint and New Hampshire Public Utilities Commission Staff Advocates.(1)
10.26	Post Filing Regulatory Settlement—Maine, dated as of February 9, 2010, by and among FairPoint, Maine Public Utilities Commission and Maine Office of the Public Advocate.(1)
10.27	Post Filing Regulatory Settlement—Vermont, dated as of February 5, 2010, by and between FairPoint and Vermont Department of Public Service.(1)
11	Statement Regarding Computation of Per Share Earnings (included in the financial statements contained in this Annual Report).
14.1	FairPoint Code of Business Conduct and Ethics.(14)
14.2	FairPoint Code of Ethics for Financial Professionals.(10)
21	Subsidiaries of FairPoint.*
23.1	Consent of Ernst & Young LLP.*
31.1	Certification as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.*
31.2	Certification as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.*
32.1	Certification required by 18 United States Code Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.‡
32.2	Certification required by 18 United States Code Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.‡
99.1	Order, dated January 13, 2011, Confirming Debtors' Third Amended Joint Plan of Reorganization Under Chapter 11 of the Bankruptcy Code, dated as of December 29, 2010.(1)
99.2	Order of the Maine Public Utilities Commission, dated February 1, 2008.(11)
99.3	Order of the Vermont Public Service Board, dated February 15, 2008.(12)
99.4	Order of the New Hampshire Public Utilities Commission, dated February 25, 2008.(13)
99.5	FairPoint Insider Trading Policy.(14)
101.INS	XBRL Instance Document.*
101.SCH	XBRL Taxonomy Extension Schema Document.*
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document.*
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document.*

* Filed herewith.

†	Indicates a management contract or compensatory plan or arrangement.
‡	Pursuant to SEC Release No. 33-8238, this certification will be treated as "accompanying" this Annual Report on Form 10-K and not "filed" as part of such report for purposes of Section 18 of the Exchange Act, or otherwise subject to the liability of Section 18 of the Exchange Act and this certification will not be deemed to be incorporated by reference into any filing under the Securities Act or the Exchange Act, except to the extent that the registrant specifically incorporates it by reference.
(1)	Incorporated by reference to the Current Report on Form 8-K of FairPoint filed on January 14, 2011.
(2)	Incorporated by reference to the Registration Statement on Form 8-A of FairPoint filed on January 24, 2011.
(3)	Incorporated by reference to the Current Report on Form 8-K of FairPoint filed on January 25, 2011, Film Number 11544980.
(4)	Incorporated by reference to the Current Report on Form 8-K of FairPoint filed on January 25, 2011, Film Number 11544991.
(5)	Incorporated by reference to the Quarterly Report on Form 10-Q of FairPoint for the period ended September 30, 2000.
(6)	Incorporated by reference to the Current Report on Form 8-K of FairPoint filed on December 13, 2007.
(7)	Incorporated by reference to the Current Report on Form 8-K of FairPoint filed on April 3, 2008.
(8)	Incorporated by reference to the Current Report on Form 8-K of FairPoint filed on January 8, 2008.
(9)	Incorporated by reference to the Current Report on Form 8-K of FairPoint filed on January 24, 2008.
(10)	Incorporated by reference to the Annual Report on Form 10-K of FairPoint for the year ended December 31, 2004.
(11)	Incorporated by reference to the Current Report on Form 8-K of FairPoint filed on February 6, 2008.
(12)	Incorporated by reference to the Current Report on Form 8-K of FairPoint filed on February 21, 2008.
(13)	Incorporated by reference to the Current Report on Form 8-K of FairPoint filed on February 27, 2008.
(14)	Incorporated by reference to the Annual Report on Form 10-K of FairPoint for the year ended December 31, 2010.
(15)	Incorporated by reference to the Quarterly Report on Form 10-Q of FairPoint for the period ended June 30, 2011.
(16)	Incorporated by reference to the Quarterly Report on Form 10-Q of FairPoint for the period ended March 31, 2012.
(17)	Incorporated by reference to the Current Report on Form 8-K of FairPoint filed on November 13, 2012.
(18)	Incorporated by reference to the Current Report on Form 8-K of FairPoint filed on February 14, 2013.
(19)	Incorporated by reference to the Annual Report on Form 10-K of FairPoint for the year ended December 31, 2012.
(20)	Incorporated by reference to the Quarterly Report on Form 10-Q of FairPoint for the period ended March 31, 2013.
(21)	Incorporated by reference to the Quarterly Report on Form 10-Q of FairPoint for the period ended September 30, 2013.

Exhibit 10.16

EMPLOYMENT AGREEMENT

This EMPLOYMENT AGREEMENT (this "Agreement") is made and entered into as of this 1st day of July, 2011 (the "Commencement Date") by and between FairPoint Communications, Inc. (the "Company"), a Delaware corporation, and Kenneth W. Amburn (the "Executive").

W I T N E S S E T H :

WHEREAS, the Company desires to employ Executive and to enter into this Agreement embodying the terms of such employment, and Executive desires to enter into this Agreement and to accept such employment, subject to the terms and provisions of this Agreement.

NOW, THEREFORE, in consideration of the promises and mutual covenants contained herein and for other good and valuable consideration, the receipt and sufficiency of which are mutually acknowledged, the Company and Executive hereby agree as follows:

Section 1. **Definitions**.

(a) "Accrued Obligations" shall mean (i) all accrued but unpaid Base Salary through the date of termination of Executive's employment, (ii) any unpaid or unreimbursed expenses incurred in accordance with Section 7 hereof, (iii) any benefits provided under the Company's employee benefit plans upon a termination of employment, in accordance with the terms contained therein, and (iv) any amounts payable under the FairPoint Communications, Inc. 2010 Long Term Incentive Plan ("LTIP"), in accordance with the terms contained therein.

(b) "Cause" shall mean (i) Executive's act(s) of gross negligence or willful misconduct in the course of Executive's employment hereunder, (ii) willful failure or refusal by Executive to perform in any material respect his duties or responsibilities, (iii) misappropriation (or attempted misappropriation) by Executive of any assets or business opportunities of the Company or any other member of the Company Group, (iv) embezzlement or fraud committed (or attempted) by Executive, or at his direction, (v) Executive's conviction of, indictment for, or pleading "guilty" or " no contest" to, (x) a felony or (y) any other criminal charge that has, or could be reasonably expected to have, an adverse impact on the performance of Executive's duties to the Company or any other member of the Company Group or otherwise result in material injury to the reputation or business of the Company or any other member of the Company Group, (vi) any material violation by Executive of the policies of the Company, including but not limited to those relating to sexual harassment or business conduct, and those otherwise set forth in the manuals or statements of policy of the Company, which violation has a material adverse effect on the Company, or (vii) Executive's material breach of this Agreement or material breach of the Non-Interference Agreement.

(c) "Change in Control" shall have the same meaning as defined in the LTIP, as in effect on the date hereof; provided, however, that there shall be no provision for any threatened or anticipated Change in Control that does not actually occur.

(d) "Disability" shall mean any physical or mental disability or infirmity of Executive that prevents the performance of Executive's duties for a period of (i) ninety (90) consecutive days or (ii) one hundred twenty (120) non-consecutive days during any twelve (12) month period. Any question as to the existence, extent, or potentiality of Executive's Disability upon which Executive and the

Company cannot agree shall be determined by a qualified, independent physician selected by the Company and approved by Executive (which approval shall not be unreasonably withheld). The determination of any such physician shall be final and conclusive for all purposes of this Agreement.

(e) "Good Reason" shall mean, without Executive's consent, (i) a material reduction in Base Salary set forth in Section 4(a) hereof or Annual Bonus opportunity set forth in Section 4(b) hereof, (ii) the relocation of Executive's principal place of employment (as provided in Section 3(b) hereof) more than fifty (50) miles from its current location, or (iii) any other material breach of a provision of this Agreement by the Company (other than a provision that is covered by clause (i) or (ii) above). Executive acknowledges and agrees that his exclusive remedy in the event of any breach of this Agreement shall be to assert Good Reason pursuant to the terms and conditions of Section 8(e) hereof. Notwithstanding the foregoing, during the Term of Employment, in the event that the Board reasonably believes that Executive may have engaged in conduct that could constitute Cause hereunder, the Board may, in its sole and absolute discretion, suspend Executive from performing his duties hereunder, and in no event shall any such suspension constitute an event pursuant to which Executive may terminate employment with Good Reason or otherwise constitute a breach hereunder; *provided*, that no such suspension shall alter the Company's obligations under this Agreement during such period of suspension.

(f) "Person" shall mean any individual, corporation, partnership, limited liability company, joint venture, association, joint-stock company, trust (charitable or non-charitable), unincorporated organization, or other form of business entity.

Section 2. **Acceptance and Term of Employment**.

The Company agrees to employ Executive, and Executive agrees to serve the Company, on the terms and conditions set forth herein. The term of employment (the "Term of Employment") shall commence on the Commencement Date and shall continue during the period ending on the close of business of the three (3) year anniversary of the Commencement Date, unless terminated sooner as provided in Section 8 or unless the Company has provided Executive with notice of its intention to renew the Term of Employment for a specific period of time, such notice to be given not less than one hundred twenty (120) days prior to the expiration of the three (3) year anniversary of the Commencement Date. Following the three year Term of Employment (or the applicable extension term, if any), the Executive shall continue on an at will basis until such time as the Company provides to Executive a written notice of termination pursuant to the provisions of Section 18 hereof.

Section 3. **Position, Duties, and Responsibilities; Place of Performance.**

(a) Position, Duties and Responsibilities. During the Term of Employment, Executive shall be employed and serve as Executive Vice President of Engineering, Operations and Network Planning of the Company (with such title subject to change from time to time as determined by the Board of Directors of the Company (the "Board") together with such other position or positions consistent with Executive's title as the Chief Executive Officer of the Company (the "CEO") shall specify from time to time), and shall have such duties and responsibilities commensurate with such title. Executive also agrees to serve, at the request of the CEO, as an officer of any other direct or indirect subsidiary of the Company (each such subsidiary being, together with the Company, a member of the "Company Group"), in each case without additional compensation.

(b) Performance. Executive shall devote his full business time, attention, skill, and best efforts to the performance of his duties under this Agreement and shall not engage in any other business or occupation during the Term of Employment, including, without limitation, any activity that (x) conflicts with the interests of the Company or any other member of the Company Group, (y) interferes with the proper and efficient performance of Executive's duties for the Company, or (z) interferes with Executive's exercise of judgment in the Company's best interests. Notwithstanding the foregoing, nothing herein shall preclude Executive from (i) serving, with the prior written consent of the CEO, as a member of the boards of directors or advisory boards (or their equivalents in the case of a non-corporate entity) of non-competing businesses and charitable organizations, (ii) engaging in charitable activities and community affairs, and (iii) managing personal investments and affairs; *provided*, *however*, that the activities set out in clauses (i), (ii) and (iii) shall be limited by Executive so as not to interfere, individually or in the aggregate, with the performance of his duties and responsibilities hereunder. Executive's principal place of employment shall be in Charlotte, North Carolina, although Executive understands and agrees that he may be required to travel from time to time for business reasons.

Section 4. **Compensation**.

During the Term of Employment, Executive shall be entitled to the following compensation:

(a) Base Salary. Executive shall be paid an annualized base salary (the "Base Salary"), payable in accordance with the regular payroll practices of the Company, of not less than Two Hundred Seventy-Five Thousand Dollars ($275,000), with increases, if any, as may be approved in writing by the Compensation Committee of the Board of Directors (the "Compensation Committee").

(b) Annual Bonus. Executive shall be eligible for an annual incentive bonus award (the " Annual Bonus") through participation in the Company's Annual Incentive Plan in respect of each fiscal year during the Term of Employment, with the actual Annual Bonus payable being based upon the level of achievement of annual Company and individual performance objectives for such fiscal year, as determined by the Compensation Committee and communicated to Executive. The Annual Bonus shall be paid to Executive at the same time as annual bonuses are generally payable to other senior executives of the Company subject to Executive's continuous employment through the payment date.

(c) Other Plans. Executive shall be eligible for consideration by the Compensation Committee to participate in the benefit and other plans made available generally to senior executives of the Company, including but not limited to the LTIP, subject to the terms and conditions as may be established from time to time by the Compensation Committee and communicated to Executive. Upon the occurrence of a Change in Control, all of Executive's unvested benefits under the LTIP shall be accelerated and shall vest in full.

(d) Indemnification. The Company shall indemnify Executive and hold Executive harmless in connection with the defense of any lawsuit or other claim to which he is made a party by reason of being an officer or employee of the Company, to the fullest extent permitted by the laws of the State of Delaware, as in effect at the time of the subject act or omission; *provided* that any settlement, consent to judgment, or similar action taken by Executive without the prior written consent of the Company in respect of any such lawsuit or other claim shall not be subject to indemnification hereunder.

Section 5. **Employee Benefits**.

During the Term of Employment, Executive shall be entitled to participate in health, insurance, retirement, and other benefits provided generally to similarly situated employees of the Company. Executive shall also be entitled to the same number of holidays, vacation days, and sick days, as well as any other benefits, in each case as are generally allowed to similarly situated employees of the Company in accordance with the Company policy as in effect from time to time. Nothing contained herein shall be construed to limit the Company's ability to amend, suspend, or terminate any employee benefit plan or policy at any time without providing Executive notice, and the right to do so is expressly reserved.

Section 6. **Key-Man Insurance**.

At any time during the Term of Employment, the Company shall have the right to insure the life of Executive for the sole benefit of the Company, in such amounts, and with such terms, as it may determine. All premiums payable thereon shall be the obligation of the Company. Executive shall have no interest in any such policy, but agrees to cooperate with the Company in procuring such insurance by submitting to physical examinations, supplying all information required by the insurance company, and executing all necessary documents, provided that no financial obligation is imposed on Executive by any such documents.

Section 7. **Reimbursement of Business Expenses**.

Executive is authorized to incur reasonable business expenses in carrying out his duties and responsibilities under this Agreement, and the Company shall promptly reimburse his for all such reasonable business expenses, subject to documentation in accordance with the Company's policy, as in effect from time to time.

Section 8. **Termination of Employment.**

(a) General. The Term of Employment shall terminate upon the earliest to occur of (i) Executive's death, (ii) a termination by reason of a Disability, (iii) a termination by the Company with or without Cause, (iv) a termination by Executive with or without Good Reason, and (v) delivery by the Company to Executive of a termination notice at any time subsequent to the close of business on the last day of the Term of Employment. Upon any termination of Executive's employment for any reason, except as may otherwise be requested by the Company in writing and agreed upon in writing by Executive, Executive shall resign from any and all directorships, committee memberships, and any other positions Executive holds with the Company or any other member of the Company Group. Notwithstanding anything herein to the contrary, the payment (or commencement of a series of payments) hereunder of any nonqualified deferred compensation (within the meaning of Section 409A of the Internal Revenue Code of 1986, as amended, and the rules and regulations promulgated thereunder (the "Code")) upon a termination of employment shall be delayed until such time as Executive has also undergone a "separation from service" as defined in Treas. Reg. 1.409A-1(h), at which time such nonqualified deferred compensation (calculated as of the date of Executive's termination of employment hereunder) shall be paid (or commence to be paid) to Executive on the schedule set forth in this Section 8 as if Executive had undergone such termination of employment (under the same circumstances) on the date of his ultimate "separation from service."

(b) Termination Due to Death or Disability. Executive's employment shall terminate automatically upon his death. The Company may terminate Executive's employment immediately upon the occurrence of a Disability, such termination to be effective upon Executive's receipt of written notice of such termination. Upon Executive's death or in the event that Executive's employment is terminated due to his Disability, Executive or his estate or his beneficiaries, as the case may be, shall be entitled to:

(i) The Accrued Obligations;

(ii) Any unpaid Annual Bonus in respect of any completed fiscal year that has ended prior to the date of such termination, which amount shall be paid at such time annual bonuses are paid to other senior executives of the Company, but in no event later than the date that is 2½ months following the last day of the fiscal year in which such termination occurred.

Following Executive's death or a termination of Executive's employment by reason of a Disability, except as set forth in this Section 8(b), Executive shall have no further rights to any compensation or any other benefits under this Agreement.

(c) Termination by the Company with Cause.

(i) The Company may terminate Executive's employment at any time with Cause, effective upon Executive's receipt of written notice of such termination; *provided*, *however*, that with respect to any Cause termination relying on clause (ii) of the definition of Cause set forth in Section 1(b) hereof, to the extent that such act or acts or failure or failures to act are curable, Executive shall be given not less than ten (10) days' written notice by the Board of its intention to terminate his with Cause, such notice to state in detail the particular act or acts or failure or failures to act that constitute the grounds on which the proposed termination with Cause is based, and such termination shall be effective at the expiration of such ten (10) day notice period unless Executive has fully cured such act or acts or failure or failures to act that give rise to Cause during such period.

(ii) In the event that the Company terminates Executive's employment with Cause, he shall be entitled only to the Accrued Obligations. Following such termination of Executive's employment with Cause, except as set forth in this Section 8(c)(ii), Executive shall have no further rights to any compensation or any other benefits under this Agreement.

(d) Termination by the Company without Cause or upon Delivery of a Termination Notice from the Company to the Executive. The Company may terminate Executive's employment at any time without Cause, effective upon Executive's receipt of written notice of such termination, or by delivery to Executive of a written notice of termination in accordance with the provisions of Section 2 above.

(i) In the event that Executive's employment is terminated by the Company without Cause (other than due to death or Disability) or upon the Company's delivery of a termination notice, in either case prior to the expiration of the Term of Employment (for example, the termination must be effected or the termination notice must be delivered to Executive prior to the expiration of three (3) years from the Commencement Date), Executive shall be entitled to:

(A) The Accrued Obligations;

(B) Any unpaid Annual Bonus in respect of any completed fiscal year that has ended prior to the date of such termination, which amount shall be paid at such time annual bonuses are paid to other senior executives of the Company, but in no event later than the date that is 2½ months following the last day of the fiscal year in which such termination occurred;

(C) An amount equal to the sum of:

(x) two (2) times the amount of Executive's then-current Base Salary;

(y) two (2) times the amount of Executive's average Annual Bonus where such average is determined by reference to the actual Annual Bonus paid to Executive for the immediately two (2) preceding fiscal years,

(z) the cost of continued health and disability insurance coverage for Executive and his covered dependents during the twenty four (24) months following such termination, based on the monthly cost of continuation coverage under COBRA as of the date of termination, as applicable, under the applicable Company benefit plans, such amounts to be paid in accordance with the Company's regular payroll practices; and

(D) if any such termination is within six (6) months before or six (6) months after a Change in Control, the amount payable under Section 8(d)(i)(C)(y) shall be adjusted to the greater of (A) the amount payable under Section 8(d)(i)(C)(y), or (B) two (2) times the amount of Executive's target Annual Bonus for the current fiscal year. To the extent that the amount payable under this Section 8(d)(i)(D) is greater than the amount payable under

Section 8(d)(i)(C), the deficiency shall be paid at the effective time of the occurrence of a Change in Control.

(ii) In the event that Executive's employment is terminated by the Company without Cause (other than due to death or Disability) or upon the Company's delivery of a termination notice, in either case after the expiration of the Term of Employment (for example, the termination is effected or the termination notice is delivered to Executive subsequent to the expiration of three (3) years from the Commencement Date, herein an "At Will Termination"), Executive shall be entitled to the Accrued Obligations only; provided, however, if the At Will Termination is effected within six (6) months prior to a Change in Control, Executive shall be entitled to each of the payments and benefits described in clauses (B), (C) and (D) above.

Notwithstanding the foregoing, the payments and benefits described in clauses (B), (C) and (D) above shall immediately terminate, and the Company shall have no further obligations to Executive with respect thereto, in the event that Executive breaches any provision of the Non-Interference Agreement.

Following such termination of Executive's employment by the Company without Cause or upon the Company's delivery to Executive of a termination notice, except as set forth in this Section 8(d), Executive shall have no further rights to any compensation or any other benefits under this Agreement.

For the avoidance of doubt, Executive's sole and exclusive remedy upon a termination of employment by the Company without Cause or upon the expiration of the Term of Employment, in either case following the Company's delivery to Executive of a termination notice which termination is effected or where the termination notice is delivered prior to the expiration of the date that is three (3) years subsequent to the Commencement Date, shall be receipt of the Severance Benefits and the Accrued Obligations.

(e) Termination by Executive with Good Reason. Executive may terminate his employment with Good Reason by providing the Company ten (10) days' written notice setting forth in reasonable specificity the event that constitutes Good Reason, which written notice, to be effective, must be provided to the Company within sixty (60) days of the occurrence of such event. During such ten (10) day notice period, the Company shall have a cure right (if curable), and if not cured within such period, Executive's termination will be effective upon the expiration of such cure period. Executive shall be entitled to the same payments and benefits as provided in Section 8(d) hereof for a termination by the Company without Cause, subject to the same conditions on payment and benefits as described in Section 8(d) hereof; provided, however, that Executive shall also be entitled to accelerated vesting of the next tranche of benefits payable under the LTIP. Following such termination of Executive's employment by Executive with Good Reason, except as set forth in this Section 8(e), Executive shall have no further rights to any compensation or any other benefits under this Agreement. For the avoidance of doubt, Executive's sole and exclusive remedy upon a termination of employment with Good Reason shall be receipt of the amounts as set forth in this Section 8(e).

(f) Termination by Executive without Good Reason or upon Delivery by Executive to Company of a Termination Notice. Executive may terminate his employment without Good Reason by providing the Company thirty (30) days' written notice of such termination or by delivery of a written termination notice in accordance with the provisions of Section 2 above. In the event of a termination of employment by Executive under this Section 8(f), Executive shall be entitled only to the Accrued Obligations. In the event of termination of Executive's employment without Good Reason, the Company may, in its sole and absolute discretion, by written notice accelerate such date of termination without changing the characterization of such termination as a termination by Executive without Good Reason. Following such termination of Executive's employment by Executive without Good Reason or upon Executive's delivery to Company of a termination notice, except as set forth in this Section 8(f), Executive shall have no further rights to any compensation or any other benefits under this Agreement.

(g) Release. Notwithstanding any provision herein to the contrary, the payment of any amount or provision of any benefit pursuant to subsection (b), (d), or (e) of this Section 8 (other than the Accrued Obligations) (collectively, the " Severance Benefits") shall be conditioned upon Executive's execution, delivery to the Company, and non-revocation of a release of claims (under a release of claims form, the form and content of which are acceptable to the Company, and the expiration of any revocation period contained in such release of claims) within sixty (60) days following the date of Executive's termination of employment hereunder. If Executive fails to execute the release of claims in such a timely manner so as to permit any revocation period to expire prior to the end of such sixty (60) day period, or timely revokes his acceptance of such release following its execution, Executive shall not be entitled to any of the Severance Benefits. Further, to the extent that any of the Severance Benefits constitutes "nonqualified deferred compensation" for purposes of Section 409A of the Code, any payment of any amount or provision of any benefit otherwise scheduled to occur prior to the sixtieth (60^{th}) day following the date of Executive's termination of employment hereunder, but for the condition on executing the release of claims as set forth herein, shall not be made until the first regularly scheduled payroll date following such sixtieth (60^{th}) day, after which any remaining Severance Benefits shall thereafter be provided to Executive according to the applicable schedule set forth herein. For the avoidance of doubt, in the event of a termination due to Executive's death or Disability, Executive's obligations herein to execute and not revoke the release of claims may be satisfied on his behalf by his estate or a person having legal power of attorney over his affairs.

Section 9. **Non-Interference Agreement**.

As a condition to receipt of the benefits set forth under this Agreement, to which Executive acknowledges are incremental to the benefits and compensation available to Executive immediately prior to the Commencement Date, Executive shall have executed and delivered to the Company a non-interference agreement (the "Non-Interference Agreement") in the form of the Confidentiality, Non-Interference and Invention Assignment Agreement attached hereto as Exhibit A. The parties hereto acknowledge and agree that this Agreement and the Non-Interference Agreement shall be considered separate contracts.

Section 10. **Representations and Warranties of Executive**.

Executive represents and warrants to the Company that:

(a) Executive is entering into this Agreement voluntarily and that his employment hereunder and compliance with the terms and conditions hereof will not conflict with or result in the breach by his of any agreement to which he is a party or by which he may be bound;

(b) Executive has not violated, and in connection with his employment with the Company will not violate, any non-solicitation, non-competition, or other similar covenant or agreement of a prior employer by which he is or may be bound; and

(c) in connection with his employment with the Company, Executive will not use any confidential or proprietary information he may have obtained in connection with employment with any prior employer.

Section 11. **Taxes**.

The Company may withhold from any payments made under this Agreement all applicable taxes, including but not limited to income, employment, and social insurance taxes, as shall be required by law. Executive acknowledges and represents that the Company has not provided any tax advice to his in connection with this Agreement and that he has been advised by the Company to seek tax advice from his own tax advisors regarding this Agreement and payments that may be made to his pursuant to this Agreement, including specifically, the application of the provisions of Section 409A of the Code to such payments.

Section 12. **Mitigation; Company Recovery Rights**.

Executive shall not be required to mitigate the amount of any payment provided pursuant to this Agreement by seeking other employment or otherwise, and the amount of any payment provided for pursuant to this Agreement shall not be reduced by any compensation earned as a result of Executive's other employment or otherwise. Any payment pursuant to this Agreement shall, however, be subject to any rights the Company may have under Section 304(b) of the Sarbanes-Oxley Act of 2002 or Section 954 of the Dodd-Frank Wall Street Reform and Consumer Protection Act.

Section 13. **Additional Section 409A Provisions**.

Notwithstanding any provision in this Agreement to the contrary:

(a) Any payment otherwise required to be made hereunder to Executive at any date as a result of the termination of Executive's employment shall be delayed for such period of time as may be necessary to meet the requirements of Section 409A(a)(2)(B)(i) of the Code (the "Delay Period"). On the first business day following the expiration of the Delay Period, Executive shall be paid, in a single cash lump sum, an amount equal to the aggregate amount of all payments delayed pursuant to the preceding sentence, and any remaining payments not so delayed shall continue to be paid pursuant to the payment schedule set forth herein.

(b) Each payment in a series of payments hereunder shall be deemed to be a separate payment for purposes of Section 409A of the Code.

(c) To the extent that any right to reimbursement of expenses or payment of any benefit in-kind under this Agreement constitutes nonqualified deferred compensation (within the meaning of Section 409A of the Code), (i) any such expense reimbursement shall be made by the Company no later than the last day of the taxable year following the taxable year in which such expense was incurred by Executive, (ii) the right to reimbursement or in-kind benefits shall not be subject to liquidation or exchange for another benefit, and (iii) the amount of expenses eligible for reimbursement or in-kind benefits provided during any taxable year shall not affect the expenses eligible for reimbursement or in-kind benefits to be provided in any other taxable year; *provided*, that the foregoing clause shall not be violated with regard to expenses reimbursed under any arrangement covered by Section 105(b) of the Code solely because such expenses are subject to a limit related to the period the arrangement is in effect.

(d) While the payments and benefits provided hereunder are intended to be structured in a manner to avoid the implication of any penalty taxes under Section 409A of the Code, in no event whatsoever shall the Company or any member of the Company Group be liable for any additional tax, interest, or penalties that may be imposed on Executive as a result of Section 409A of the Code or any damages for failing to comply with Section 409A of the Code (other than for withholding obligations or other obligations applicable to employers, if any, under Section 409A of the Code).

Section 14. **Successors and Assigns; No Third-Party Beneficiaries**.

(a) The Company. This Agreement shall inure to the benefit of the Company and its respective successors and assigns. Neither this Agreement nor any of the rights, obligations, or interests arising hereunder may be assigned by the Company to a Person (other than another member of the Company Group, or its or their respective successors) without Executive's prior written consent (which shall not be unreasonably withheld, delayed, or conditioned); *provided*, *however*, that in the event of a sale of all or substantially all of the assets of the Company, the Company may provide that this Agreement will be assigned to, and assumed by, the acquiror of such assets, it being agreed that in such circumstances, Executive's consent will not be required in connection therewith.

(b) Executive. Executive's rights and obligations under this Agreement shall not be transferable by Executive by assignment or otherwise, without the prior written consent of the Company; *provided*, *however*, upon Executive's death, all amounts then payable to Executive hereunder shall be paid in accordance with the terms of this Agreement to Executive's devisee, legatee, or other designee, or if there be no such designee, to Executive's estate.

(c) No Third-Party Beneficiaries. Except as otherwise set forth in Section 8(b) or Section 14(b) hereof, nothing expressed or referred to in this Agreement will be construed to give any Person other than the Company, the other members of the Company Group, and Executive any legal or equitable right, remedy, or claim under or with respect to this Agreement or any provision of this Agreement.

Section 15. **Waiver and Amendments**.

Any waiver, alteration, amendment, or modification of any of the terms of this Agreement shall be valid only if made in writing and signed by each of the parties hereto; *provided*, *however*, that any such waiver, alteration, amendment, or modification must be consented to on the Company's behalf by the Board. No waiver by either of the parties hereto of their rights hereunder shall be deemed to constitute a waiver with respect to any subsequent occurrences or transactions hereunder unless such waiver specifically states that it is to be construed as a continuing waiver.

Section 16. **Severability.**

If any covenants or such other provisions of this Agreement are found to be invalid or unenforceable by a final determination of a court of competent jurisdiction, (a) the remaining terms and provisions hereof shall be unimpaired, and (b) the invalid or unenforceable term or provision hereof shall be deemed replaced by a term or provision that is valid and enforceable and that comes closest to expressing the intention of the invalid or unenforceable term or provision hereof.

Section 17. **Governing Law and Jurisdiction.**

THIS AGREEMENT IS GOVERNED BY AND IS TO BE CONSTRUED UNDER THE LAWS OF THE STATE OF NORTH CAROLINA, WITHOUT REGARD TO CONFLICT OF LAWS RULES. ANY DISPUTE OR CLAIM ARISING OUT OF OR RELATING TO THIS AGREEMENT OR CLAIM OF BREACH HEREOF SHALL BE BROUGHT EXCLUSIVELY IN FEDERAL COURT IN THE STATE OF NORTH CAROLINA. BY EXECUTION OF THE AGREEMENT, THE PARTIES HERETO, AND THEIR RESPECTIVE AFFILIATES, CONSENT TO THE EXCLUSIVE JURISDICTION OF SUCH COURT, AND WAIVE ANY RIGHT TO CHALLENGE JURISDICTION OR VENUE IN SUCH COURT WITH REGARD TO ANY SUIT, ACTION, OR PROCEEDING UNDER OR IN CONNECTION WITH THE AGREEMENT. EACH PARTY TO THIS AGREEMENT ALSO HEREBY WAIVES ANY RIGHT TO TRIAL BY JURY IN CONNECTION WITH ANY SUIT, ACTION, OR PROCEEDING UNDER OR IN CONNECTION WITH THIS AGREEMENT.

Section 18. **Notices.**

(a) Place of Delivery. Every notice or other communication relating to this Agreement shall be in writing, and shall be mailed to or delivered to the party for whom or which it is intended at such address as may from time to time be designated by it in a notice mailed or delivered to the other party as herein provided; *provided*, that unless and until some other address be so designated, all notices and communications by Executive to the Company shall be mailed or delivered to the Company at its principal executive office, Attention: General Counsel, and all notices and communications by the Company to Executive may be given to Executive personally or may be mailed to Executive at Executive's last known address, as reflected in the Company's records.

(b) Date of Delivery. Any notice so addressed shall be deemed to be given (i) if delivered by hand, on the date of such delivery, (ii) if mailed by courier or by overnight mail, on the first business day following the date of such mailing, and (iii) if mailed by registered or certified mail, on the third business day after the date of such mailing.

Section 19. **Section Headings.**

The headings of the sections and subsections of this Agreement are inserted for convenience only and shall not be deemed to constitute a part thereof or affect the meaning or interpretation of this Agreement or of any term or provision hereof.

Section 20. **Entire Agreement.**

This Agreement, together with any exhibits attached hereto, constitutes the entire understanding and agreement of the parties hereto regarding the employment of Executive. This Agreement supersedes all prior negotiations, discussions, correspondence, communications, understandings, and agreements between the parties relating to the subject matter of this Agreement.

Section 21. **Survival of Operative Sections.**

Upon any termination of Executive's employment, the provisions of Section 8 through Section 22 of this Agreement (together with any related definitions set forth in Section 1 hereof) shall survive to the extent necessary to give effect to the provisions thereof.

Section 22. **Counterparts.**

This Agreement may be executed in two or more counterparts, each of which shall be deemed to be an original but all of which together shall constitute one and the same instrument. The execution of this Agreement may be by actual or facsimile signature.

* * *

[Signatures to appear on the following page.]

IN WITNESS WHEREOF, the undersigned have executed this Agreement as of the date first above written.

FAIRPOINT COMMUNICATIONS, INC.

/s/ Paul H. Sunu

By: Paul H. Sunu

Title: Chief Executive Officer

EXECUTIVE

/s/ Kenneth W. Amburn

CONFIDENTIALITY, NON-INTERFERENCE, AND INVENTION ASSIGNMENT AGREEMENT

In consideration of FairPoint Communications, Inc., a Delaware corporation (the " Company"), providing me with an employment agreement of even date herewith, and my receipt of the compensation now and hereafter paid to me by the Company, including the additional benefits and compensation provided to me under my employment agreement, I agree to the following:

Section 23. Confidential Information.

(a) Company Group Information. I acknowledge that, during the course of my employment, I will have access to information about the Company and its direct and indirect subsidiaries and affiliates (collectively, the " Company Group") and that my employment with the Company shall bring me into close contact with confidential and proprietary information of the Company Group. In recognition of the foregoing, I agree, at all times during the term of my employment with the Company and for the three (3) year period following my termination of my employment for any reason, to hold in confidence, and not to use, except for the benefit of the Company Group, or to disclose to any person, firm, corporation, or other entity without written authorization of the Company, any Confidential Information that I obtain or create. I understand that "Confidential Information" means information that the Company Group has developed, acquired, created, compiled, discovered, or owned or will develop, acquire, create, compile, discover, or own, that has value in or to the business of the Company Group that is not generally known and that the Company wishes to maintain as confidential. I understand that Confidential Information includes, but is not limited to, any and all non-public information that relates to the actual or anticipated business and/or products, research, or development of the Company, or to the Company's technical data, trade secrets, or know-how, including, but not limited to, research, product plans, or other information regarding the Company's products or services and markets, customer lists, and customers (including, but not limited to, customers of the Company on whom I called or with whom I may become acquainted during the term of my employment), software, developments, inventions, processes, formulas, technology, designs, drawings, engineering, hardware configuration information, marketing, finances, and other business information disclosed by the Company either directly or indirectly in writing, orally, or by drawings or inspection of premises, parts, equipment, or other Company property. Notwithstanding the foregoing, Confidential Information shall not include (i) any of the foregoing items that have become publicly known through no unauthorized disclosure by me or others who were under confidentiality obligations as to the item or items involved, (ii) any information that I am required to disclose to, or by, any governmental or judicial authority, (iii) any information known to me prior to my employment with the Company, other than information acquired in preparation for my service to the Company, or (iv) any information developed independently by me that does not relate to the business of the Company Group; *provided*, *however*, that in the event of such requirement to disclose I will give the Company prompt written notice thereof so that the Company Group may seek an appropriate protective order and/or waive in writing compliance with the confidentiality provisions of this Confidentiality, Non-Interference, and Invention Assignment Agreement (the "Non-Interference Agreement").

(b) Former Employer Information. I represent that my performance of all of the terms of this Non-Interference Agreement as an employee of the Company has not breached and will not breach any agreement to keep in confidence proprietary information, knowledge, or data acquired by me in confidence or trust prior or subsequent to the commencement of my employment with the Company, and I will not disclose to any member of the Company Group, or induce any member of the Company Group to use, any developments, or confidential or proprietary information or material I may have obtained in connection with employment with any prior employer in violation of a confidentiality agreement, nondisclosure agreement, or similar agreement with such prior employer.

Section 24. **Developments**.

(a) Developments Retained and Licensed. If, during any period during which I perform or performed services for the Company Group (the "Assignment Period"), whether as an officer, employee, director, independent contractor, consultant, or agent, or in any other capacity, I incorporate (or have incorporated) into a Company Group product or process any development, original work of authorship, improvement, or trade secret that I created or owned prior to the commencement of my employment or in which I have an interest (collectively referred to as "Prior Developments"), I hereby grant the Company, and the Company Group shall have, a non-exclusive, royalty-free, irrevocable, perpetual, transferable worldwide license (with the right to sublicense) to make, have made, copy, modify, make derivative works of, use, sell, and otherwise distribute such Prior Development as part of or in connection with such product or process.

(b) Assignment of Developments. I agree that I will, without additional compensation, promptly make full written disclosure to the Company, and will hold in trust for the sole right and benefit of the Company all developments, original works of authorship, inventions, concepts, know-how, improvements, trade secrets, and similar proprietary rights, whether or not patentable or registrable under copyright or similar laws, which I may solely or jointly conceive or develop or reduce to practice, or have solely or jointly conceived or developed or reduced to practice, or have caused or may cause to be conceived or developed or reduced to practice, during the Assignment Period, whether or not during regular working hours, provided they either (i) relate at the time of conception, development or reduction to practice to the business of any member of the Company Group, or the actual or anticipated research or development of any member of the Company Group; (ii) result from or relate to any work performed for any member of the Company Group; or (iii) are developed through the use of equipment, supplies, or facilities of any member of the Company Group, or any Confidential Information, or in consultation with personnel of any member of the Company Group (collectively referred to as "Developments"). I further acknowledge that all Developments made by me (solely or jointly with others) within the scope of and during the Assignment Period are "works made for hire" (to the greatest extent permitted by applicable law) for which I am, in part, compensated by my salary, unless regulated otherwise by law, but that, in the event any such Development is deemed not to be a work made for hire, I hereby assign to the Company, or its designee, all my right, title, and interest throughout the world in and to any such Development.

(c) Maintenance of Records. I agree to keep and maintain adequate and current written records of all Developments made by me (solely or jointly with others) during the Assignment Period. The records may be in the form of notes, sketches, drawings, flow charts, electronic data or recordings, and any other format. The records will be available to and remain the sole property of the Company Group at all times. I agree not to remove such records from the Company's place of business except as expressly permitted by Company Group policy, which may, from time to time, be revised at the sole election of the Company Group for the purpose of furthering the business of the Company Group.

(d) Intellectual Property Rights. I agree to assist the Company, or its designee, at the Company's expense, in every way to secure the rights of the Company Group in the Developments and any copyrights, patents, trademarks, service marks, database rights, domain names, mask work rights, moral rights, and other intellectual property rights relating thereto in any and all countries, including the disclosure to the Company of all pertinent information and data with respect thereto, the execution of all applications, specifications, oaths, assignments, recordations, and all other instruments that the Company shall deem necessary in order to apply for, obtain, maintain, and transfer such rights and in order to assign and convey to the Company Group the sole and exclusive right, title, and interest in and to such Developments, and any intellectual property and other proprietary rights relating thereto. I further agree that my obligation to execute or cause to be executed, when it is in my power to do so, any such instrument or papers shall continue after the termination of the Assignment Period until the expiration of the last such intellectual property right to expire in any country of the world; *provided*, *however*, the Company shall reimburse me for my reasonable expenses incurred in connection with carrying out the foregoing obligation. If the Company is unable because of my mental or physical incapacity or unavailability for any other reason to secure my signature to apply for or to pursue any application for any United States or foreign patents or copyright registrations covering Developments or original works of authorship assigned to the Company as above, then I hereby irrevocably designate and appoint the Company and its duly authorized officers and agents as my agent and attorney in fact to act for and in my behalf and stead to execute and file any such applications or records and to do all other lawfully permitted acts to further the application for, prosecution, issuance, maintenance, and transfer of letters patent or registrations thereon with the same legal force and effect as if originally executed by me. I hereby waive and irrevocably quitclaim to the Company any and all claims, of any nature whatsoever, that I now or hereafter have for past, present, or future infringement of any and all proprietary rights assigned to the Company.

Section 25. **Returning Company Group Documents**.

I agree that, at the time of termination of my employment with the Company for any reason, I will deliver to the Company (and will not keep in my possession, recreate, or deliver to anyone else) any and all Confidential Information and all other documents, materials, information, and property developed by me pursuant to my employment or otherwise belonging to the Company. I agree further that any property situated on the Company's premises and owned by the Company (or any other member of the Company Group), including disks and other storage media, filing cabinets, and other work areas, is subject to inspection by personnel of any member of the Company Group at any time with or without notice.

Section 26. **Disclosure of Agreement**.

As long as it remains in effect, I will disclose the existence of this Non-Interference Agreement to any prospective employer, partner, co-venturer, investor, or lender prior to entering into an employment, partnership, or other business relationship with such person or entity.

Section 27. **Restrictions on Interfering**.

(a) Non-Competition. During the period of my employment with the Company (the "Employment Period") and the Post-Termination Non-Compete Period, I shall not, directly or indirectly, individually or on behalf of any person, company, enterprise, or entity, or as a sole proprietor, partner, stockholder, director, officer, principal, agent, or executive, or in any other capacity or relationship, engage in any Competitive Activities.

(b) Non-Interference. During the Employment Period and the Post-Termination Non-Interference Period, I shall not, directly or indirectly for my own account or for the account of any other individual or entity, engage in Interfering Activities; *provided*, *however*, that I shall not be deemed to violate this subsection (b) to the extent that any employee of any subsequent employer of mine, in the ordinary course of business, conducts any activity described in subsection (c)(iii)(C) below as to any Business Relation, provided that I have not directed or instructed any such employee (either personally or through another) to contact any such Business Relation.

(c) Definitions. For purposes of this Non-Interference Agreement :

(i) "Business Relation" shall mean any current or prospective client, customer, licensee, or other business relation of the Company Group, or any such relation that was a client, customer, licensee, or other business relation within the six (6) month period prior to the expiration of the Employment Period, in each case, to whom I provided services, or with whom I transacted business, or whose identity became known to me in connection with my relationship with or employment by the Company and is not publicly known.

(ii) "Competitive Activities" shall mean telecommunication services provided by a rural exchange carrier business which has substantial business operations in the state of Florida, Maine, New Hampshire, North Carolina, or Vermont.

(iii) "Interfering Activities" shall mean (A) encouraging, soliciting, or inducing, or in any manner attempting to encourage, solicit, or induce, any Person employed by, or providing consulting services to, any member of the Company Group to terminate such Person's employment or services (or in the case of a consultant, materially reducing such services) with the Company Group; (B) hiring any individual who was employed by the Company Group within the six (6) month period prior to the date of such hiring; or (C) encouraging, soliciting, or inducing, or in any manner attempting to encourage, solicit, or induce, any Business Relation to cease doing business with or reduce the amount of business conducted with the Company Group, or in any way interfering with the relationship between any such Business Relation and the Company Group.

(iv) "Person" shall mean any individual, corporation, partnership, limited liability company, joint venture, association, joint-stock company, trust (charitable or non-charitable), unincorporated organization, or other form of business entity.

(v) "Post-Termination Non-Compete Period" shall mean the period commencing on the date of the termination of the Employment Period for any reason and ending on the twelve (12) month anniversary of such date of termination.

(vi) "Post-Termination Non-Interference Period" shall mean the period commencing on the date of the termination of the Employment Period for any reason and ending on the twelve (12) month anniversary of such date of termination.

(d) Non-Disparagement. I agree that during the Employment Period, and at all times thereafter, I will not make any disparaging or defamatory comments regarding any member of the Company Group or its respective current or former directors, officers, or employees in any respect or make any comments concerning any aspect of my relationship with any member of the Company Group or any conduct or events which precipitated any termination of my employment from any member of the Company Group. However, my obligations under this subparagraph (d) shall not apply to disclosures required by applicable law, regulation, or order of a court or governmental agency.

Section 28. **Reasonableness of Restrictions**.

I acknowledge and recognize the highly competitive nature of the Company's business, that access to Confidential Information renders me special and unique within the Company's industry, and that I will have the opportunity to develop substantial relationships with existing and prospective clients, accounts, customers, consultants, contractors, investors, and strategic partners of the Company Group during the course of and as a result of my employment with the Company. In light of the foregoing, I recognize and acknowledge that the restrictions and limitations set forth in this Non-Interference Agreement are reasonable and valid in geographical and temporal scope and in all other respects and are essential to protect the value of the business and assets of the Company Group. I acknowledge further that the restrictions and limitations set forth in this Non-Interference Agreement will not materially interfere with my ability to earn a living following the termination of my employment with the Company and that my ability to earn a livelihood without violating such restrictions is a material condition to my employment with the Company.

Section 29. **Independence; Severability; Blue Pencil**.

Each of the rights enumerated in this Non-Interference Agreement shall be independent of the others and shall be in addition to and not in lieu of any other rights and remedies available to the Company Group at law or in equity. If any of the provisions of this Non-Interference Agreement or any part of any of them is hereafter construed or adjudicated to be invalid or unenforceable, the same shall not affect the remainder of this Non-Interference Agreement, which shall be given full effect without regard to the invalid portions. If any of the covenants contained herein are held to be invalid or unenforceable because of the duration of such provisions or the area or scope covered thereby, I agree that the court making such determination shall have the power to reduce the duration, scope, and/or area of such provision to the maximum and/or broadest duration, scope, and/or area permissible by law, and in its reduced form said provision shall then be enforceable.

Section 30. **Injunctive Relief**.

I expressly acknowledge that any breach or threatened breach of any of the terms and/or conditions set forth in this Non-Interference Agreement may result in irreparable injury to the members of the Company Group. Therefore, I hereby agree that, in addition to any other remedy that may be available to the Company, any member of the Company Group shall be entitled to seek injunctive relief, specific performance, or other equitable relief by a court of appropriate jurisdiction in the event of any breach or threatened breach of the terms of this Non-Interference Agreement without the necessity of proving irreparable harm or injury as a result of such breach or threatened breach. Notwithstanding any other provision to the contrary, I acknowledge and agree that the Post-Termination Non-Compete Period, or Post-Termination Non-Interference Period, as applicable, shall be tolled during any period of violation of any of the covenants in Section 5 hereof.

Section 31. **Cooperation**.

I agree that, following any termination of my employment, I will continue to provide reasonable cooperation to the Company and/or any other member of the Company Group and its or their respective counsel in connection with any investigation, administrative proceeding, or litigation relating to any matter that occurred during my employment in which I was involved or of which I have knowledge. As a condition of such cooperation, the Company shall reimburse me for reasonable out-of-pocket expenses incurred at the request of the Company with respect to my compliance with this paragraph. I also agree that, in the event that I am subpoenaed by any person or entity (including, but not limited to, any government agency) to give testimony or provide documents (in a deposition, court proceeding, or otherwise) that in any way relates to my employment by the Company and/or any other member of the Company Group, I will give prompt notice of such request to the Company and will make no disclosure until the Company and/or the other member of the Company Group has had a reasonable opportunity to contest the right of the requesting person or entity to such disclosure.

Section 32. **General Provisions**.

(a) Governing Law and Jurisdiction. THIS NON-INTERFERENCE AGREEMENT IS GOVERNED BY AND IS TO BE CONSTRUED UNDER THE LAWS OF THE STATE OF NORTH CAROLINA, WITHOUT REGARD TO CONFLICT OF LAWS RULES. ANY DISPUTE OR CLAIM ARISING OUT OF OR RELATING TO THIS NON-INTERFERENCE AGREEMENT OR CLAIM OF BREACH HEREOF SHALL BE BROUGHT EXCLUSIVELY IN FEDERAL COURT IN THE STATE OF NORTH CAROLINA.BY EXECUTION OF THE NON-INTERFERENCE AGREEMENT, THE PARTIES HERETO, AND THEIR RESPECTIVE AFFILIATES, CONSENT TO THE EXCLUSIVE JURISDICTION OF SUCH COURT, AND WAIVE ANY RIGHT TO CHALLENGE JURISDICTION OR VENUE IN SUCH COURT WITH REGARD TO ANY SUIT, ACTION, OR PROCEEDING UNDER OR IN CONNECTION WITH THE NON-INTERFERENCE AGREEMENT. EACH PARTY TO THIS

NON-INTERFERENCE AGREEMENT ALSO HEREBY WAIVES ANY RIGHT TO TRIAL BY JURY IN CONNECTION WITH ANY SUIT, ACTION, OR PROCEEDING UNDER OR IN CONNECTION WITH THIS NON-INTERFERENCE AGREEMENT.

(b) Entire Agreement. This Non-Interference Agreement sets forth the entire agreement and understanding between the Company and me relating to the subject matter herein and merges all prior discussions between us. No modification or amendment to this Non-Interference Agreement, nor any waiver of any rights under this Non-Interference Agreement, will be effective unless in writing signed by the party to be charged. Any subsequent change or changes in my duties, obligations, rights, or compensation will not affect the validity or scope of this Non-Interference Agreement.

(c) No Right of Continued Employment. I acknowledge and agree that nothing contained herein shall be construed as granting me any right to continued employment by the Company, and the right of the Company to terminate my employment at any time and for any reason, with or without cause, is specifically reserved.

(d) Successors and Assigns. This Non-Interference Agreement will be binding upon my heirs, executors, administrators, and other legal representatives and will be for the benefit of the Company, its successors, and its assigns. I expressly acknowledge and agree that this Non-Interference Agreement may be assigned by the Company without my consent to any other member of the Company Group as well as any purchaser of all or substantially all of the assets or stock of the Company, whether by purchase, merger, or other similar corporate transaction, provided that the license granted pursuant to Section 2(a) may be assigned to any third party by the Company without my consent.

(e) Survival. The provisions of this Non-Interference Agreement shall survive the termination of my employment with the Company and/or the assignment of this Non-Interference Agreement by the Company to any successor in interest or other assignee.

* * *

I, Kenneth W. Amburn, have executed this Confidentiality, Non-Interference, and Invention Assignment Agreement on the respective date set forth below:

Date: June 17, 2011 /s/ Kenneth W. Amburn

(Signature)

Exhibit 10.17

EMPLOYMENT AGREEMENT

This EMPLOYMENT AGREEMENT (this "Agreement") is made and entered into as of this 30th day of May, 2012 (the "Commencement Date") by and between FairPoint Communications, Inc. (the "Company"), a Delaware corporation, and Rosemary M. Hauser (the "Executive").

W I T N E S S E T H :

WHEREAS, the Company desires to employ Executive and to enter into this Agreement embodying the terms of such employment, and Executive desires to enter into this Agreement and to accept such employment, subject to the terms and provisions of this Agreement.

NOW, THEREFORE, in consideration of the promises and mutual covenants contained herein and for other good and valuable consideration, the receipt and sufficiency of which are mutually acknowledged, the Company and Executive hereby agree as follows:

Section 1. **Definitions**.

(a) "Accrued Obligations" shall mean (i) all accrued but unpaid Base Salary through the date of termination of Executive's employment, (ii) any unpaid or unreimbursed expenses incurred in accordance with Section 7 hereof, (iii) any benefits provided under the Company's employee benefit plans upon a termination of employment, in accordance with the terms contained therein, and (iv) any amounts payable under the FairPoint Communications, Inc. 2010 Long Term Incentive Plan ("LTIP"), in accordance with the terms contained therein.

(b) "Cause" shall mean (i) Executive's act(s) of gross negligence or willful misconduct in the course of Executive's employment hereunder, (ii) willful failure or refusal by Executive to perform in any material respect her duties or responsibilities, (iii) misappropriation (or attempted misappropriation) by Executive of any assets or business opportunities of the Company or any other member of the Company Group, (iv) embezzlement or fraud committed (or attempted) by Executive, or at her direction, (v) Executive's conviction of, indictment for, or pleading "guilty" or " no contest" to, (x) a felony or (y) any other criminal charge that has, or could be reasonably expected to have, an adverse impact on the performance of Executive's duties to the Company or any other member of the Company Group or otherwise result in material injury to the reputation or business of the Company or any other member of the Company Group, (vi) any material violation by Executive of the policies of the Company, including but not limited to those relating to sexual harassment or business conduct, and those otherwise set forth in the manuals or statements of policy of the Company, which violation has a material adverse effect on the Company, or (vii) Executive's material breach of this Agreement or material breach of the Non-Interference Agreement.

(c) "Change in Control" shall have the same meaning as defined in the LTIP, as in effect on the date hereof; provided, however, that there shall be no provision for any threatened or anticipated Change in Control that does not actually occur.

(d) "Disability" shall mean any physical or mental disability or infirmity of Executive that prevents the performance of Executive's duties for a period of (i) ninety (90) consecutive days or (ii) one hundred twenty (120) non-consecutive days during any twelve (12) month period. Any question as to the existence, extent, or potentiality of Executive's Disability upon which Executive and the Company cannot agree shall be determined by a qualified, independent physician selected by the Company and approved by Executive (which approval shall not be unreasonably withheld). The determination of any such physician shall be final and conclusive for all purposes of this Agreement.

(e) "Good Reason" shall mean, without Executive's consent, (i) a material reduction in Base Salary set forth in Section 4(a) hereof or Annual Bonus opportunity referred to in Section 4(b) hereof or (ii) any other material breach of a provision of this Agreement by the Company (other than a provision that is covered by clause (i) above). Executive acknowledges and agrees that her exclusive remedy in the event of any breach of this Agreement shall be to assert Good Reason pursuant to the terms and conditions of Section 8(e) hereof. Notwithstanding the foregoing, during the Term of Employment, in the event that the Board reasonably believes that Executive may have engaged in conduct that could constitute Cause hereunder, the Board may, in its sole and absolute discretion, suspend Executive from performing her duties hereunder, and in no event shall any such suspension constitute an event pursuant to which Executive may terminate employment with Good Reason or otherwise constitute a breach hereunder; *provided*, that no such suspension shall alter the Company's obligations under this Agreement during such period of suspension.

(f) "Person" shall mean any individual, corporation, partnership, limited liability company, joint venture, association, joint-stock company, trust (charitable or non-charitable), unincorporated organization, or other form of business entity.

Section 2. **Acceptance and Term of Employment**.

The Company agrees to employ Executive, and Executive agrees to serve the Company, on the terms and conditions set forth herein. The term of employment (the "Term of Employment") shall commence on the Commencement Date and shall continue during the period ending on the close of business of the three (3) year anniversary of the Commencement Date, unless terminated sooner as provided in Section 8 or unless the Company has provided Executive with notice of its intention to renew the Term of Employment for a specific period of time, such notice to be given not less than one hundred twenty (120) days prior to the expiration of the three (3) year anniversary of the Commencement Date. Following the three year Term of Employment (or the applicable extension term, if any), the Executive shall continue on an at will basis until such time as the Company provides to Executive a written notice of termination pursuant to the provisions of Section 18 hereof.

Section 3. **Position, Duties, and Responsibilities; Place of Performance.**

(a) Position, Duties and Responsibilities. During the Term of Employment, Executive shall be employed and serve as Executive Vice President and Chief Information Officer of the Company (with such title subject to change from time to time as determined by the Board of Directors of the Company (the "Board") together with such other position or positions consistent with Executive's title as the Chief Executive Officer of the Company (the "CEO") shall specify from time to time), and shall have such duties and responsibilities commensurate with such title. Executive also agrees to serve, at the request of the CEO, as an officer of any other direct or indirect subsidiary of the Company (each such subsidiary being, together with the Company, a member of the "Company Group"), in each case without additional compensation.

(b) Performance. Executive shall devote her full business time, attention, skill, and best efforts to the performance of her duties under this Agreement and shall not engage in any other business or occupation during the Term of Employment, including, without limitation, any activity that (x) conflicts with the interests of the Company or any other member of the Company Group, (y) interferes with the proper and efficient performance of Executive's duties for the Company, or (z) interferes with

Executive's exercise of judgment in the Company's best interests. Notwithstanding the foregoing, nothing herein shall preclude Executive from (i) serving, with the prior written consent of the CEO, as a member of the boards of directors or advisory boards (or their equivalents in the case of a non-corporate entity) of non-competing businesses and charitable organizations, (ii) engaging in charitable activities and community affairs, and (iii) managing personal investments and affairs; *provided*, *however*, that the activities set out in clauses (i), (ii) and (iii) shall be limited by Executive so as not to interfere, individually or in the aggregate, with the performance of her duties and responsibilities hereunder.

Section 4. **Compensation**.

During the Term of Employment, Executive shall be entitled to the following compensation:

(a) Base Salary. Executive shall be paid an annualized base salary (the "Base Salary"), payable in accordance with the regular payroll practices of the Company, of not less than Two Hundred Seventy-Five Thousand Dollars ($275,000), with increases, if any, as may be approved in writing by the Compensation Committee of the Board of Directors (the "Compensation Committee").

(b) Annual Bonus. Executive shall be eligible for an annual incentive bonus award (the "Annual Bonus") through participation in the Company's Annual Incentive Plan in respect of each fiscal year during the Term of Employment, with the actual Annual Bonus payable being based upon the level of achievement of annual Company and individual performance objectives for such fiscal year, as determined by the Compensation Committee and communicated to Executive. The Annual Bonus shall be paid to Executive at the same time as annual bonuses are generally payable to other senior executives of the Company subject to Executive's continuous employment through the payment date.

(c) Other Plans. Executive shall be eligible for consideration by the Compensation Committee to participate in the benefit and other plans made available generally to senior executives of the Company, including but not limited to the LTIP, subject to the terms and conditions as may be established from time to time by the Compensation Committee and communicated to Executive. Upon the occurrence of a Change in Control, all of Executive's unvested benefits under the LTIP shall be accelerated and shall vest in full.

(d) Indemnification. The Company shall indemnify Executive and hold Executive harmless in connection with the defense of any lawsuit or other claim to which she is made a party by reason of being an officer or employee of the Company, to the fullest extent permitted by the laws of the State of Delaware, as in effect at the time of the subject act or omission; *provided* that any settlement, consent to judgment, or similar action taken by Executive without the prior written consent of the Company in respect of any such lawsuit or other claim shall not be subject to indemnification hereunder.

Section 5. **Employee Benefits**.

During the Term of Employment, Executive shall be entitled to participate in health, insurance, retirement, and other benefits provided generally to similarly situated employees of the Company. Executive shall also be entitled to the same number of holidays, vacation days, and sick days, as well as any other benefits, in each case as are generally allowed to similarly situated employees of the Company in accordance with the Company policy as in effect from time to time. Nothing contained herein shall be construed to limit the Company's ability to amend, suspend, or terminate any employee benefit plan or policy at any time without providing Executive notice, and the right to do so is expressly reserved.

Section 6. **Key-Man Insurance**.

At any time during the Term of Employment, the Company shall have the right to insure the life of Executive for the sole benefit of the Company, in such amounts, and with such terms, as it may determine. All premiums payable thereon shall be the obligation of the Company. Executive shall have no interest in any such policy, but agrees to cooperate with the Company in procuring such insurance by submitting to physical examinations, supplying all information required by the insurance company, and executing all necessary documents, provided that no financial obligation is imposed on Executive by any such documents.

Section 7. **Reimbursement of Business Expenses**.

Executive is authorized to incur reasonable business expenses in carrying out her duties and responsibilities under this Agreement, and the Company shall promptly reimburse her for all such reasonable business expenses, subject to documentation in accordance with the Company's policy, as in effect from time to time.

Section 8. **Termination of Employment.**

(a) General. The Term of Employment shall terminate upon the earliest to occur of (i) Executive's death, (ii) a termination by reason of a Disability, (iii) a termination by the Company with or without Cause, (iv) a termination by Executive with or without Good Reason, and (v) delivery by the Company to Executive of a termination notice at any time subsequent to the close of business on the last day of the Term of Employment. Upon any termination of Executive's employment for any reason, except as may otherwise be requested by the Company in writing and agreed upon in writing by Executive, Executive shall resign from any and all directorships, committee memberships, and any other positions Executive holds with the Company or any other member of the Company Group. Notwithstanding anything herein to the contrary, the payment (or commencement of a series of payments) hereunder of any nonqualified deferred compensation (within the meaning of Section 409A of the Internal Revenue Code of 1986, as amended, and the rules and regulations promulgated thereunder (the "Code")) upon a termination of employment shall be delayed until such time as Executive has also undergone a "separation from service" as defined in Treas. Reg. 1.409A-1(h), at which time such nonqualified deferred compensation (calculated as of the date of Executive's termination of employment hereunder) shall be paid (or commence to be paid) to Executive on the schedule set forth in this Section 8 as if Executive had undergone such termination of employment (under the same circumstances) on the date of her ultimate "separation from service."

(b) Termination Due to Death or Disability. Executive's employment shall terminate automatically upon her death. The Company may terminate Executive's employment immediately upon the occurrence of a Disability, such termination to be effective upon Executive's receipt of written notice of such termination. Upon Executive's death or in the event that Executive's employment is terminated due to her Disability, Executive or her estate or her beneficiaries, as the case may be, shall be entitled to:

(i) The Accrued Obligations;

(ii) Any unpaid Annual Bonus in respect of any completed fiscal year that has ended prior to the date of such termination, which amount shall be paid at such time annual bonuses are paid to other senior executives of the Company, but in no event later than the date that is 2½ months following the last day of the fiscal year in which such termination occurred.

Following Executive's death or a termination of Executive's employment by reason of a Disability, except as set forth in this Section 8(b), Executive shall have no further rights to any compensation or any other benefits under this Agreement.

(c) Termination by the Company with Cause.

(i) The Company may terminate Executive's employment at any time with Cause, effective upon Executive's receipt of written notice of such termination; *provided*, *however*, that with respect to any Cause termination relying on clause (ii) of the definition of Cause set forth in Section 1(b) hereof, to the extent that such act or acts or failure or failures to act are curable, Executive shall be given not less than ten (10) days' written notice by the Board of its intention to terminate her with Cause, such notice to state in detail the particular act or acts or failure or failures to act that constitute the grounds on which the proposed termination with Cause is based, and such termination shall be effective at the expiration of such ten (10) day notice period unless Executive has fully cured such act or acts or failure or failures to act that give rise to Cause during such period.

(ii) In the event that the Company terminates Executive's employment with Cause, she shall be entitled only to the Accrued Obligations. Following such termination of Executive's employment with Cause, except as set forth in this Section 8(c)(ii), Executive shall have no further rights to any compensation or any other benefits under this Agreement.

(d) Termination by the Company without Cause or upon Delivery of a Termination Notice from the Company to the Executive. The Company may terminate Executive's employment at any time without Cause, effective upon Executive's receipt of written notice of such termination, or by delivery to Executive of a written notice of termination in accordance with the provisions of Section 2 above.

(i) In the event that Executive's employment is terminated by the Company without Cause (other than due to death or Disability) or upon the Company's delivery of a termination notice, in either case prior to the expiration of the Term of Employment (for example, the termination must be effected or the termination notice must be delivered to Executive prior to the expiration of three (3) years from the Commencement Date), Executive shall be entitled to:

(A) The Accrued Obligations, paid as soon as practicable following Executive's termination of employment, but in no event later than the date that is 2½ months following the last day of the fiscal year in which such termination occurred;

(B) Any unpaid Annual Bonus in respect of any completed fiscal year that has ended prior to the date of such termination, which amount shall be paid at such time annual bonuses are paid to other senior executives of the Company, but in no event later than the date that is 2½ months following the last day of the fiscal year in which such termination occurred;

(C) An amount equal to the sum of:

(x) two (2) times the amount of Executive's then-current Base Salary, paid as soon as practicable following Executive's termination of employment, but in no event later than the date that is 2½ months following the last day of the fiscal year in which such termination occurred;

(y) two (2) times the amount of Executive's average Annual Bonus where such average is determined by reference to the actual Annual Bonus paid to Executive for the immediately two (2) preceding fiscal years, paid as soon as practicable following Executive's termination of employment, but in no event later than the date that is 2½ months following the last day of the fiscal year in which such termination occurred;

(z) the cost of continued health and disability insurance coverage for Executive and her covered dependents during the twenty four (24) months following such termination, based on the monthly cost of continuation coverage under COBRA as of the date of termination, as applicable, under the applicable Company benefit plans, such amounts to be paid in accordance with the Company's regular payroll practices; and

(D) if any such termination is within six (6) months before or six (6) months after a Change in Control, the amount payable under Section 8(d)(i)(C)(y) shall be adjusted to the greater of (A) the amount payable under Section 8(d)(i)(C)(y), or (B) two (2) times the amount of Executive's target Annual Bonus for the current fiscal year. To the extent that the amount payable under this Section 8(d)(i)(D) is greater than the amount payable under Section 8(d)(i)(C), the deficiency shall be paid at the effective time of the occurrence of a Change in Control.

(ii) In the event that Executive's employment is terminated by the Company without Cause (other than due to death or Disability) or upon the Company's delivery of a termination notice, in either case after the expiration of the Term of Employment (for example, the termination is effected or the termination notice is delivered to Executive subsequent to the expiration of three (3) years from the Commencement Date, herein an "At Will Termination"), Executive shall be entitled to the Accrued Obligations only; provided, however, if the At Will Termination is effected within six (6) months prior to a Change in Control, Executive shall be entitled to each of the payments and benefits described in clauses (B), (C) and (D) above.

Notwithstanding the foregoing, the payments and benefits described in clauses (B), (C) and (D) above shall immediately terminate, and the Company shall have no further obligations to Executive with respect thereto, in the event that Executive breaches any provision of the Non-Interference Agreement.

Following such termination of Executive's employment by the Company without Cause or upon the Company's delivery to Executive of a termination notice, except as set forth in this Section 8(d), Executive shall have no further rights to any compensation or any other benefits under this Agreement.

For the avoidance of doubt, Executive's sole and exclusive remedy upon a termination of employment by the Company without Cause or upon the expiration of the Term of Employment, in either case following the Company's delivery to Executive of a termination notice which termination is effected or where the termination notice is delivered prior to the expiration of the date that is three (3) years subsequent to the Commencement Date, shall be receipt of the Severance Benefits and the Accrued Obligations.

(e) Termination by Executive with Good Reason. Executive may terminate her employment with Good Reason by providing the Company thirty (30) days' written notice setting forth in reasonable specificity the event that constitutes Good Reason, which written notice, to be effective, must be provided to the Company within sixty (60) days of the initial occurrence of such event. During such thirty (30) day notice period, the Company shall have a cure right (if curable), and if not cured within such period, Executive's termination will be effective upon the expiration of such cure period. Executive shall be entitled to the same payments and benefits as provided in Section 8(d) hereof for a termination by the Company without Cause, subject to the same conditions on payment and benefits as described in Section 8(d) hereof; provided, however, that Executive shall also be entitled to accelerated vesting of the next tranche of benefits payable under the LTIP. Following such termination of Executive's employment by Executive with Good Reason, except as set forth in this Section 8(e), Executive shall have no further rights to any compensation or any other benefits under this Agreement. For the avoidance of doubt, Executive's sole and exclusive remedy upon a termination of employment with Good Reason shall be receipt of the amounts as set forth in this Section 8(e).

(f) Termination by Executive without Good Reason or upon Delivery by Executive to Company of a Termination Notice. Executive may terminate her employment without Good Reason by providing the Company thirty (30) days' written notice of such termination or by delivery of a written termination notice in accordance with the provisions of Section 2 above. In the event of a termination of employment by Executive under this Section 8(f), Executive shall be entitled only to the Accrued Obligations. In the event of termination of Executive's employment without Good Reason, the Company may, in its sole and absolute discretion, by written notice accelerate such date of termination without changing the characterization of such termination as a termination by Executive without Good Reason. Following such termination of Executive's employment by Executive without Good Reason or upon Executive's delivery to Company of a termination notice, except as set forth in this Section 8(f), Executive shall have no further rights to any compensation or any other benefits under this Agreement.

(g) Release. Notwithstanding any provision herein to the contrary, the payment of any amount or provision of any benefit pursuant to subsection (b), (d), or (e) of this Section 8 (other than the Accrued Obligations) (collectively, the " Severance Benefits") shall be conditioned upon Executive's execution, delivery to the Company, and non-revocation of a release of claims (under a release of claims form, the form and content of which are acceptable to the Company, and the expiration of any revocation period contained in such release of claims) within sixty (60) days following the date of Executive's termination of employment hereunder. If Executive fails to execute the release of claims in such a timely manner so as to permit any revocation period to expire prior to the end of such sixty (60) day period, or timely revokes her acceptance of such release following its execution, Executive shall not be entitled to any of the Severance Benefits. Further, to the extent that any of the Severance Benefits constitutes "nonqualified deferred compensation" for purposes of Section 409A of the Code, any payment of any amount or provision of any benefit otherwise scheduled to occur prior to the sixtieth (60^{th}) day following the date of Executive's termination of employment hereunder, but for the condition on executing the release of claims as set forth herein, shall not be made until the first regularly scheduled payroll date following such sixtieth (60^{th}) day, after which any remaining Severance Benefits shall thereafter be provided to Executive according to the applicable schedule set forth herein. For the avoidance of doubt, in the event of a termination due to Executive's death or Disability, Executive's obligations herein to execute and not revoke the release of claims may be satisfied on her behalf by her estate or a person having legal power of attorney over her affairs.

Section 9. **Non-Interference Agreement**.

As a condition to receipt of the benefits set forth under this Agreement, to which Executive acknowledges are incremental to the benefits and compensation available to Executive immediately prior to the Commencement Date, Executive shall have executed and delivered to the Company a non-interference agreement (the "Non-Interference Agreement") in the form of the Confidentiality, Non-Interference and Invention Assignment Agreement attached hereto as Exhibit A. The parties hereto acknowledge and agree that this Agreement and the Non-Interference Agreement shall be considered separate contracts.

Section 10. **Representations and Warranties of Executive**.

Executive represents and warrants to the Company that:

(a) Executive is entering into this Agreement voluntarily and that her employment hereunder and compliance with the terms and conditions hereof will not conflict with or result in the breach by her of any agreement to which she is a party or by which she may be bound;

(b) Executive has not violated, and in connection with her employment with the Company will not violate, any non-solicitation, non-competition, or other similar covenant or agreement of a prior employer by which she is or may be bound; and

(c) in connection with her employment with the Company, Executive will not use any confidential or proprietary information she may have obtained in connection with employment with any prior employer.

Section 11. **Taxes**.

The Company may withhold from any payments made under this Agreement all applicable taxes, including but not limited to income, employment, and social insurance taxes, as shall be required by law. Executive acknowledges and represents that the Company has not provided any tax advice to her in connection with this Agreement and that she has been advised by the Company to seek tax advice from her own tax advisors regarding this Agreement and payments that may be made to her pursuant to this Agreement, including specifically, the application of the provisions of Section 409A of the Code to such payments.

Section 12. **Mitigation; Company Recovery Rights**.

Executive shall not be required to mitigate the amount of any payment provided pursuant to this Agreement by seeking other employment or otherwise, and the amount of any payment provided for pursuant to this Agreement shall not be reduced by any compensation earned as a result of Executive's other employment or otherwise. Any payment pursuant to this Agreement shall, however, be subject to any rights the Company may have under Section 304(b) of the Sarbanes-Oxley Act of 2002 or Section 954 of the Dodd-Frank Wall Street Reform and Consumer Protection Act.

Section 13. **Additional Section 409A Provisions**.

Notwithstanding any provision in this Agreement to the contrary:

(a) Any payment otherwise required to be made hereunder to Executive at any date as a result of the termination of Executive's employment shall be delayed for such period of time as may be necessary to meet the requirements of Section 409A(a)(2)(B)(i) of the Code (the "Delay Period"). On the first business day following the expiration of the Delay Period, Executive shall be paid, in a single cash lump sum, an amount equal to the aggregate amount of all payments delayed pursuant to the preceding sentence, and any remaining payments not so delayed shall continue to be paid pursuant to the payment schedule set forth herein.

(b) Each payment in a series of payments hereunder shall be deemed to be a separate payment for purposes of Section 409A of the Code.

(c) To the extent that any right to reimbursement of expenses or payment of any benefit in-kind under this Agreement constitutes nonqualified deferred compensation (within the meaning of Section 409A of the Code), (i) any such expense reimbursement shall be made by the Company no later than the last day of the taxable year following the taxable year in which such expense was incurred by Executive, (ii) the right to reimbursement or in-kind benefits shall not be subject to liquidation or exchange for another benefit, and (iii) the amount of expenses eligible for reimbursement or in-kind benefits provided during any taxable year shall not affect the expenses eligible for reimbursement or in-kind benefits to be provided in any other taxable year; *provided*, that the foregoing clause shall not be violated with regard to expenses reimbursed under any arrangement covered by Section 105(b) of the Code solely because such expenses are subject to a limit related to the period the arrangement is in effect.

(d) While the payments and benefits provided hereunder are intended to be structured in a manner to avoid the implication of any penalty taxes under Section 409A of the Code, in no event whatsoever shall the Company or any member of the Company Group be liable for any additional tax, interest, or penalties that may be imposed on Executive as a result of Section 409A of the Code or any damages for failing to comply with Section 409A of the Code (other than for withholding obligations or other obligations applicable to employers, if any, under Section 409A of the Code).

Section 14. **Successors and Assigns; No Third-Party Beneficiaries**.

(a) The Company. This Agreement shall inure to the benefit of the Company and its respective successors and assigns. Neither this Agreement nor any of the rights, obligations, or interests arising hereunder may be assigned by the Company to a Person (other than another member of the Company Group, or its or their respective successors) without Executive's prior written consent (which shall not be unreasonably withheld, delayed, or conditioned); *provided*, *however*, that in the event of a sale of all or substantially all of the assets of the Company, the Company may provide that this Agreement will be assigned to, and assumed by, the acquiror of such assets, it being agreed that in such circumstances, Executive's consent will not be required in connection therewith.

(b) Executive. Executive's rights and obligations under this Agreement shall not be transferable by Executive by assignment or otherwise, without the prior written consent of the Company; *provided*, *however*, upon Executive's death, all amounts then payable to Executive hereunder shall be paid in accordance with the terms of this Agreement to Executive's devisee, legatee, or other designee, or if there be no such designee, to Executive's estate.

(c) No Third-Party Beneficiaries. Except as otherwise set forth in Section 8(b) or Section 14(b) hereof, nothing expressed or referred to in this Agreement will be construed to give any Person other than the Company, the other members of the Company Group, and Executive any legal or equitable right, remedy, or claim under or with respect to this Agreement or any provision of this Agreement.

Section 15. **Waiver and Amendments**.

Any waiver, alteration, amendment, or modification of any of the terms of this Agreement shall be valid only if made in writing and signed by each of the parties hereto; *provided*, *however*, that any such waiver, alteration, amendment, or modification must be consented to on the Company's behalf by the Board. No waiver by either of the parties hereto of their rights hereunder shall be deemed to constitute a waiver with respect to any subsequent occurrences or transactions hereunder unless such waiver specifically states that it is to be construed as a continuing waiver.

Section 16. **Severability.**

If any covenants or such other provisions of this Agreement are found to be invalid or unenforceable by a final determination of a court of competent jurisdiction, (a) the remaining terms and provisions hereof shall be unimpaired, and (b) the invalid or unenforceable term or provision hereof shall be deemed replaced by a term or provision that is valid and enforceable and that comes closest to expressing the intention of the invalid or unenforceable term or provision hereof.

Section 17. **Governing Law and Jurisdiction.**

THIS AGREEMENT IS GOVERNED BY AND IS TO BE CONSTRUED UNDER THE LAWS OF THE STATE OF NORTH CAROLINA, WITHOUT REGARD TO CONFLICT OF LAWS RULES. ANY DISPUTE OR CLAIM ARISING OUT OF OR RELATING TO THIS AGREEMENT OR CLAIM OF BREACH HEREOF SHALL BE BROUGHT EXCLUSIVELY IN FEDERAL COURT IN THE STATE OF NORTH CAROLINA. BY EXECUTION OF THE AGREEMENT, THE PARTIES HERETO, AND THEIR RESPECTIVE AFFILIATES, CONSENT TO THE EXCLUSIVE JURISDICTION OF SUCH COURT, AND WAIVE ANY RIGHT TO CHALLENGE JURISDICTION OR VENUE IN SUCH COURT WITH REGARD TO ANY SUIT, ACTION, OR PROCEEDING UNDER OR IN CONNECTION WITH THE AGREEMENT. EACH PARTY TO THIS AGREEMENT ALSO HEREBY WAIVES ANY RIGHT TO TRIAL BY JURY IN CONNECTION WITH ANY SUIT, ACTION, OR PROCEEDING UNDER OR IN CONNECTION WITH THIS AGREEMENT.

Section 18. **Notices.**

(a) Place of Delivery. Every notice or other communication relating to this Agreement shall be in writing, and shall be mailed to or delivered to the party for whom or which it is intended at such address as may from time to time be designated by it in a notice mailed or delivered to the other party as herein provided; *provided*, that unless and until some other address be so designated, all notices and communications by Executive to the Company shall be mailed or delivered to the Company at its principal executive office, Attention: General Counsel, and all notices and communications by the Company to Executive may be given to Executive personally or may be mailed to Executive at Executive's last known address, as reflected in the Company's records.

(b) Date of Delivery. Any notice so addressed shall be deemed to be given (i) if delivered by hand, on the date of such delivery, (ii) if mailed by courier or by overnight mail, on the first business day following the date of such mailing, and (iii) if mailed by registered or certified mail, on the third business day after the date of such mailing.

Section 19. **Section Headings.**

The headings of the sections and subsections of this Agreement are inserted for convenience only and shall not be deemed to constitute a part thereof or affect the meaning or interpretation of this Agreement or of any term or provision hereof.

Section 20. **Entire Agreement.**

This Agreement, together with any exhibits attached hereto, constitutes the entire understanding and agreement of the parties hereto regarding the employment of Executive. This Agreement supersedes all prior negotiations, discussions, correspondence, communications, understandings, and agreements between the parties relating to the subject matter of this Agreement.

Section 21. **Survival of Operative Sections.**

Upon any termination of Executive's employment, the provisions of Section 8 through Section 22 of this Agreement (together with any related definitions set forth in Section 1 hereof) shall survive to the extent necessary to give effect to the provisions thereof.

Section 22. **Counterparts.**

This Agreement may be executed in two or more counterparts, each of which shall be deemed to be an original but all of which together shall constitute one and the same instrument. The execution of this Agreement may be by actual or facsimile signature.

* * *

[Signatures to appear on the following page.]

IN WITNESS WHEREOF, the undersigned have executed this Agreement as of the date first above written.

FAIRPOINT COMMUNICATIONS, INC.

/s/ Paul H. Sunu

By: Paul H. Sunu

Title: Chief Executive Officer

EXECUTIVE

/s/ Rosemary M. Hauser

Rosemary M. Hauser

CONFIDENTIALITY, NON-INTERFERENCE, AND INVENTION ASSIGNMENT AGREEMENT

In consideration of FairPoint Communications, Inc., a Delaware corporation (the " Company"), providing me with an employment agreement of even date herewith, and my receipt of the compensation now and hereafter paid to me by the Company, including the additional benefits and compensation provided to me under my employment agreement, I agree to the following:

Section 23. Confidential Information.

(a) Company Group Information. I acknowledge that, during the course of my employment, I will have access to information about the Company and its direct and indirect subsidiaries and affiliates (collectively, the " Company Group") and that my employment with the Company shall bring me into close contact with confidential and proprietary information of the Company Group. In recognition of the foregoing, I agree, at all times during the term of my employment with the Company and for the three (3) year period following my termination of my employment for any reason, to hold in confidence, and not to use, except for the benefit of the Company Group, or to disclose to any person, firm, corporation, or other entity without written authorization of the Company, any Confidential Information that I obtain or create. I understand that "Confidential Information" means information that the Company Group has developed, acquired, created, compiled, discovered, or owned or will develop, acquire, create, compile, discover, or own, that has value in or to the business of the Company Group that is not generally known and that the Company wishes to maintain as confidential. I understand that Confidential Information includes, but is not limited to, any and all non-public information that relates to the actual or anticipated business and/or products, research, or development of the Company, or to the Company's technical data, trade secrets, or know-how, including, but not limited to, research, product plans, or other information regarding the Company's products or services and markets, customer lists, and customers (including, but not limited to, customers of the Company on whom I called or with whom I may become acquainted during the term of my employment), software, developments, inventions, processes, formulas, technology, designs, drawings, engineering, hardware configuration information, marketing, finances, and other business information disclosed by the Company either directly or indirectly in writing, orally, or by drawings or inspection of premises, parts, equipment, or other Company property. Notwithstanding the foregoing, Confidential Information shall not include (i) any of the foregoing items that have become publicly known through no unauthorized disclosure by me or others who were under confidentiality obligations as to the item or items involved, (ii) any information that I am required to disclose to, or by, any governmental or judicial authority, (iii) any information known to me prior to my employment with the Company, other than information acquired in preparation for my service to the Company, or (iv) any information developed independently by me that does not relate to the business of the Company Group; *provided*, *however*, that in the event of such requirement to disclose I will give the Company prompt written notice thereof so that the Company Group may seek an appropriate protective order and/or waive in writing compliance with the confidentiality provisions of this Confidentiality, Non-Interference, and Invention Assignment Agreement (the "Non-Interference Agreement").

(b) Former Employer Information. I represent that my performance of all of the terms of this Non-Interference Agreement as an employee of the Company has not breached and will not breach any agreement to keep in confidence proprietary information, knowledge, or data acquired by me in confidence or trust prior or subsequent to the commencement of my employment with the Company, and I will not disclose to any member of the Company Group, or induce any member of the Company Group to use, any developments, or confidential or proprietary information or material I may have obtained in connection with employment with any prior employer in violation of a confidentiality agreement, nondisclosure agreement, or similar agreement with such prior employer.

Section 24. **Developments**.

(a) Developments Retained and Licensed. If, during any period during which I perform or performed services for the Company Group (the "Assignment Period"), whether as an officer, employee, director, independent contractor, consultant, or agent, or in any other capacity, I incorporate (or have incorporated) into a Company Group product or process any development, original work of authorship, improvement, or trade secret that I created or owned prior to the commencement of my employment or in which I have an interest (collectively referred to as "Prior Developments"), I hereby grant the Company, and the Company Group shall have, a non-exclusive, royalty-free, irrevocable, perpetual, transferable worldwide license (with the right to sublicense) to make, have made, copy, modify, make derivative works of, use, sell, and otherwise distribute such Prior Development as part of or in connection with such product or process.

(b) Assignment of Developments. I agree that I will, without additional compensation, promptly make full written disclosure to the Company, and will hold in trust for the sole right and benefit of the Company all developments, original works of authorship, inventions, concepts, know-how, improvements, trade secrets, and similar proprietary rights, whether or not patentable or registrable under copyright or similar laws, which I may solely or jointly conceive or develop or reduce to practice, or have solely or jointly conceived or developed or reduced to practice, or have caused or may cause to be conceived or developed or reduced to practice, during the Assignment Period, whether or not during regular working hours, provided they either (i) relate at the time of conception, development or reduction to practice to the business of any member of the Company Group, or the actual or anticipated research or development of any member of the Company Group; (ii) result from or relate to any work performed for any member of the Company Group; or (iii) are developed through the use of equipment, supplies, or facilities of any member of the Company Group, or any Confidential Information, or in consultation with personnel of any member of the Company Group (collectively referred to as "Developments"). I further acknowledge that all Developments made by me (solely or jointly with others) within the scope of and during the Assignment Period are "works made for hire" (to the greatest extent permitted by applicable law) for which I am, in part, compensated by my salary, unless regulated otherwise by law, but that, in the event any such Development is deemed not to be a work made for hire, I hereby assign to the Company, or its designee, all my right, title, and interest throughout the world in and to any such Development.

(c) Maintenance of Records. I agree to keep and maintain adequate and current written records of all Developments made by me (solely or jointly with others) during the Assignment Period. The records may be in the form of notes, sketches, drawings, flow charts, electronic data or recordings, and any other format. The records will be available to and remain the sole property of the Company Group at all times. I agree not to remove such records from the Company's place of business except as expressly permitted by Company Group policy, which may, from time to time, be revised at the sole election of the Company Group for the purpose of furthering the business of the Company Group.

(d) Intellectual Property Rights. I agree to assist the Company, or its designee, at the Company's expense, in every way to secure the rights of the Company Group in the Developments and any copyrights, patents, trademarks, service marks, database rights, domain names, mask work rights, moral rights, and other intellectual property rights relating thereto in any and all countries, including the disclosure to the Company of all pertinent information and data with respect thereto, the execution of all applications, specifications, oaths, assignments, recordations, and all other instruments that the Company shall deem necessary in order to apply for, obtain, maintain, and transfer such rights and in order to assign and convey to the Company Group the sole and exclusive right, title, and interest in and to such Developments, and any intellectual property and other proprietary rights relating thereto. I further agree that my obligation to execute or cause to be executed, when it is in my power to do so, any such instrument or papers shall continue after the termination of the Assignment Period until the expiration of the last such intellectual property right to expire in any country of the world; *provided*, *however*, the Company shall reimburse me for my reasonable expenses incurred in connection with carrying out the foregoing obligation. If the Company is unable because of my mental or physical incapacity or unavailability for any other reason to secure my signature to apply for or to pursue any application for any United States or foreign patents or copyright registrations covering Developments or original works of authorship assigned to the Company as above, then I hereby irrevocably designate and appoint the Company and its duly authorized officers and agents as my agent and attorney in fact to act for and in my behalf and stead to execute and file any such applications or records and to do all other lawfully permitted acts to further the application for, prosecution, issuance, maintenance, and transfer of letters patent or registrations thereon with the same legal force and effect as if originally executed by me. I hereby waive and irrevocably quitclaim to the Company any and all claims, of any nature whatsoever, that I now or hereafter have for past, present, or future infringement of any and all proprietary rights assigned to the Company.

Section 25. **Returning Company Group Documents**.

I agree that, at the time of termination of my employment with the Company for any reason, I will deliver to the Company (and will not keep in my possession, recreate, or deliver to anyone else) any and all Confidential Information and all other documents, materials, information, and property developed by me pursuant to my employment or otherwise belonging to the Company. I agree further that any property situated on the Company's premises and owned by the Company (or any other member of the Company Group), including disks and other storage media, filing cabinets, and other work areas, is subject to inspection by personnel of any member of the Company Group at any time with or without notice.

Section 26. **Disclosure of Agreement**.

As long as it remains in effect, I will disclose the existence of this Non-Interference Agreement to any prospective employer, partner, co-venturer, investor, or lender prior to entering into an employment, partnership, or other business relationship with such person or entity.

Section 27. **Restrictions on Interfering**.

(a) Non-Competition. During the period of my employment with the Company (the "Employment Period") and the Post-Termination Non-Compete Period, I shall not, directly or indirectly, individually or on behalf of any person, company, enterprise, or entity, or as a sole proprietor, partner, stockholder, director, officer, principal, agent, or executive, or in any other capacity or relationship, engage in any Competitive Activities.

(b) Non-Interference. During the Employment Period and the Post-Termination Non-Interference Period, I shall not, directly or indirectly for my own account or for the account of any other individual or entity, engage in Interfering Activities; *provided*, *however*, that I shall not be deemed to violate this subsection (b) to the extent that any employee of any subsequent employer of mine, in the ordinary course of business, conducts any activity described in subsection (c)(iii)(C) below as to any Business Relation, provided that I have not directed or instructed any such employee (either personally or through another) to contact any such Business Relation.

(c) Definitions. For purposes of this Non-Interference Agreement :

(i) "Business Relation" shall mean any current or prospective client, customer, licensee, or other business relation of the Company Group, or any such relation that was a client, customer, licensee, or other business relation within the six (6) month period prior to the expiration of the Employment Period, in each case, to whom I provided services, or with whom I transacted business, or whose identity became known to me in connection with my relationship with or employment by the Company and is not publicly known.

(ii) "Competitive Activities" shall mean telecommunication services provided by a rural exchange carrier business which has substantial business operations in the state of Florida, Maine, New Hampshire, North Carolina, or Vermont.

(iii) "Interfering Activities" shall mean (A) encouraging, soliciting, or inducing, or in any manner attempting to encourage, solicit, or induce, any Person employed by, or providing consulting services to, any member of the Company Group to terminate such Person's employment or services (or in the case of a consultant, materially reducing such services) with the Company Group; (B) hiring any individual who was employed by the Company Group within the six (6) month period prior to the date of such hiring; or (C) encouraging, soliciting, or inducing, or in any manner attempting to encourage, solicit, or induce, any Business Relation to cease doing business with or reduce the amount of business conducted with the Company Group, or in any way interfering with the relationship between any such Business Relation and the Company Group.

(iv) "Person" shall mean any individual, corporation, partnership, limited liability company, joint venture, association, joint-stock company, trust (charitable or non-charitable), unincorporated organization, or other form of business entity.

(v) "Post-Termination Non-Compete Period" shall mean the period commencing on the date of the termination of the Employment Period for any reason and ending on the twelve (12) month anniversary of such date of termination.

(vi) "Post-Termination Non-Interference Period" shall mean the period commencing on the date of the termination of the Employment Period for any reason and ending on the twelve (12) month anniversary of such date of termination.

(d) Non-Disparagement. I agree that during the Employment Period, and at all times thereafter, I will not make any disparaging or defamatory comments regarding any member of the Company Group or its respective current or former directors, officers, or employees in any respect or make any comments concerning any aspect of my relationship with any member of the Company Group or any conduct or events which precipitated any termination of my employment from any member of the Company Group. However, my obligations under this subparagraph (d) shall not apply to disclosures required by applicable law, regulation, or order of a court or governmental agency.

Section 28. **Reasonableness of Restrictions**.

I acknowledge and recognize the highly competitive nature of the Company's business, that access to Confidential Information renders me special and unique within the Company's industry, and that I will have the opportunity to develop substantial relationships with existing and prospective clients, accounts, customers, consultants, contractors, investors, and strategic partners of the Company Group during the course of and as a result of my employment with the Company. In light of the foregoing, I recognize and acknowledge that the restrictions and limitations set forth in this Non-Interference Agreement are reasonable and valid in geographical and temporal scope and in all other respects and are essential to protect the value of the business and assets of the Company Group. I acknowledge further that the restrictions and limitations set forth in this Non-Interference Agreement will not materially interfere with my ability to earn a living following the termination of my employment with the Company and that my ability to earn a livelihood without violating such restrictions is a material condition to my employment with the Company.

Section 29. **Independence; Severability; Blue Pencil**.

Each of the rights enumerated in this Non-Interference Agreement shall be independent of the others and shall be in addition to and not in lieu of any other rights and remedies available to the Company Group at law or in equity. If any of the provisions of this Non-Interference Agreement or any part of any of them is hereafter construed or adjudicated to be invalid or unenforceable, the same shall not affect the remainder of this Non-Interference Agreement, which shall be given full effect without regard to the invalid portions. If any of the covenants contained herein are held to be invalid or unenforceable because of the duration of such provisions or the area or scope covered thereby, I agree that the court making such determination shall have the power to reduce the duration, scope, and/or area of such provision to the maximum and/or broadest duration, scope, and/or area permissible by law, and in its reduced form said provision shall then be enforceable.

Section 30. **Injunctive Relief**.

I expressly acknowledge that any breach or threatened breach of any of the terms and/or conditions set forth in this Non-Interference Agreement may result in irreparable injury to the members of the Company Group. Therefore, I hereby agree that, in addition to any other remedy that may be available to the Company, any member of the Company Group shall be entitled to seek injunctive relief, specific performance, or other equitable relief by a court of appropriate jurisdiction in the event of any breach or threatened breach of the terms of this Non-Interference Agreement without the necessity of proving irreparable harm or injury as a result of such breach or threatened breach. Notwithstanding any other provision to the contrary, I acknowledge and agree that the Post-Termination Non-Compete Period, or Post-Termination Non-Interference Period, as applicable, shall be tolled during any period of violation of any of the covenants in Section 5 hereof.

Section 31. **Cooperation**.

I agree that, following any termination of my employment, I will continue to provide reasonable cooperation to the Company and/or any other member of the Company Group and its or their respective counsel in connection with any investigation, administrative proceeding, or litigation relating to any matter that occurred during my employment in which I was involved or of which I have knowledge. As a condition of such cooperation, the Company shall reimburse me for reasonable out-of-pocket expenses incurred at the request of the Company with respect to my compliance with this paragraph. I also agree that, in the event that I am subpoenaed by any person or entity (including, but not limited to, any government agency) to give testimony or provide documents (in a deposition, court proceeding, or otherwise) that in any way relates to my employment by the Company and/or any other member of the Company Group, I will give prompt notice of such request to the Company and will make no disclosure until the Company and/or the other member of the Company Group has had a reasonable opportunity to contest the right of the requesting person or entity to such disclosure.

Section 32. **General Provisions**.

(a) Governing Law and Jurisdiction. THIS NON-INTERFERENCE AGREEMENT IS GOVERNED BY AND IS TO BE CONSTRUED UNDER THE LAWS OF THE STATE OF NORTH CAROLINA, WITHOUT REGARD TO CONFLICT OF LAWS RULES. ANY DISPUTE OR CLAIM ARISING OUT OF OR RELATING TO THIS NON-INTERFERENCE AGREEMENT OR CLAIM OF BREACH HEREOF SHALL BE BROUGHT EXCLUSIVELY IN FEDERAL COURT IN THE STATE OF NORTH CAROLINA. BY EXECUTION OF THE NON-INTERFERENCE AGREEMENT, THE

PARTIES HERETO, AND THEIR RESPECTIVE AFFILIATES, CONSENT TO THE EXCLUSIVE JURISDICTION OF SUCH COURT, AND WAIVE ANY RIGHT TO CHALLENGE JURISDICTION OR VENUE IN SUCH COURT WITH REGARD TO ANY SUIT, ACTION, OR PROCEEDING UNDER OR IN CONNECTION WITH THE NON-INTERFERENCE AGREEMENT. EACH PARTY TO THIS NON-INTERFERENCE AGREEMENT ALSO HEREBY WAIVES ANY RIGHT TO TRIAL BY JURY IN CONNECTION WITH ANY SUIT, ACTION, OR PROCEEDING UNDER OR IN CONNECTION WITH THIS NON-INTERFERENCE AGREEMENT.

(b) Entire Agreement. This Non-Interference Agreement sets forth the entire agreement and understanding between the Company and me relating to the subject matter herein and merges all prior discussions between us. No modification or amendment to this Non-Interference Agreement, nor any waiver of any rights under this Non-Interference Agreement, will be effective unless in writing signed by the party to be charged. Any subsequent change or changes in my duties, obligations, rights, or compensation will not affect the validity or scope of this Non-Interference Agreement.

(c) No Right of Continued Employment. I acknowledge and agree that nothing contained herein shall be construed as granting me any right to continued employment by the Company, and the right of the Company to terminate my employment at any time and for any reason, with or without cause, is specifically reserved.

(d) Successors and Assigns. This Non-Interference Agreement will be binding upon my heirs, executors, administrators, and other legal representatives and will be for the benefit of the Company, its successors, and its assigns. I expressly acknowledge and agree that this Non-Interference Agreement may be assigned by the Company without my consent to any other member of the Company Group as well as any purchaser of all or substantially all of the assets or stock of the Company, whether by purchase, merger, or other similar corporate transaction, provided that the license granted pursuant to Section 2(a) may be assigned to any third party by the Company without my consent.

(e) Survival. The provisions of this Non-Interference Agreement shall survive the termination of my employment with the Company and/or the assignment of this Non-Interference Agreement by the Company to any successor in interest or other assignee.

* * *

I, Rosemary M. Hauser, have executed this Confidentiality, Non-Interference, and Invention Assignment Agreement on the respective date set forth below:

Date: June 13, 2012 /s/ Rosemary M. Hauser

(Signature)

Exhibit 21

FAIRPOINT COMMUNICATIONS, INC.
(formerly known as MJD Communications, Inc.)
SUBSIDIARIES

Name	Jurisdiction of Incorporation
ST Enterprises, Ltd.	**Kansas**
FairPoint Vermont, Inc.	Delaware
ST Long Distance, Inc.	Delaware
Sunflower Telephone Company, Inc.	Kansas
Northland Telephone Company of Maine, Inc.	Maine
MJD Ventures, Inc.	**Delaware**
GTC Communications, Inc. (f/k/a TPG Communications, Inc.)	Delaware
St. Joe Communications, Inc.	Florida
GTC, Inc.	Florida
C-R Communications, Inc.	Illinois
C-R Telephone Company	Illinois
C-R Long Distance, Inc.	Illinois
Community Service Telephone Co.	Maine
Sidney Telephone Company	Maine
Utilities, Inc.	Maine
China Telephone Company	Maine
Maine Telephone Company	Maine
Standish Telephone Company	Maine
UI Long Distance, Inc.	Maine
Berkshire Telephone Corporation	New York
Berkshire Cable Corp.	New York
Berkshire Cellular, Inc.	New York
Berkshire New York Access, Inc.	New York
Chautauqua and Erie Telephone Corporation	New York
Chautauqua & Erie Communications, Inc.	New York
C & E Communications, Ltd.	New York
Taconic Telephone Corp.	New York
Taconic Technology Corp.	New York
Taconic TelCom Corp.	New York
The Columbus Grove Telephone Company	Ohio
Quality One Technologies, Inc.	Ohio
The Germantown Independent Telephone Company	Ohio
Germantown Long Distance Company	Ohio
The Orwell Telephone Company	Ohio
Orwell Communications, Inc.	Ohio
Chouteau Telephone Company	Oklahoma
Bentleyville Communications Corporation	Pennsylvania
BE Mobile Communications, Incorporated	Pennsylvania
Marianna and Scenery Hill Telephone Company	Pennsylvania
Marianna Tel, Inc.	Pennsylvania
Peoples Mutual Telephone Company	Virginia
Peoples Mutual Long Distance Company	Virginia
Comerco, Inc.	Washington
YCOM Networks, Inc.	Washington
Ellensburg Telephone Company	Washington
Elltel Long Distance Corp.	Delaware
MJD Services Corp.	**Delaware**
Big Sandy Telecom, Inc.	Delaware
Bluestem Telephone Company	Delaware
Columbine Telecom Company (f/k/a Columbine Acquisition Corp.)	Delaware
Odin Telephone Exchange, Inc.	Illinois

Ravenswood Communications, Inc. Illinois

El Paso Long Distance Company Illinois

The El Paso Telephone Company Illinois

FairPoint Communications Missouri, Inc. Missouri

Unite Communications Systems, Inc. Missouri

ExOp of Missouri, Inc. Missouri

FairPoint Carrier Services, Inc. **Delaware**

(f/k/a FairPoint Communications Solutions Corp., f/k/a FairPoint Communications Corp.)

FairPoint Broadband, Inc. **Delaware**

Northern New England Telephone Operations LLC **Delaware**

Telephone Operating Company of Vermont LLC Delaware

Enhanced Communications of Northern New England Inc. **Delaware**

FairPoint Logistics, Inc. (f/k/a MJD Capital Corp.) **South Dakota**

FairPoint Business Services LLC **Delaware**

Exhibit 23.1

Consent of Independent Registered Public Accounting Firm

We consent to the incorporation by reference in the Registration Statement (Form S-8 No. 333-171835) pertaining to the 2010 Long Term Incentive Plan of our reports dated March 5, 2014, with respect to the consolidated financial statements of FairPoint Communications, Inc. and subsidiaries, and the effectiveness of internal control over financial reporting of FairPoint Communications, Inc. and subsidiaries included in this Annual Report (Form 10-K) for the year ended December 31, 2013.

/s/ Ernst & Young LLP

Charlotte, North Carolina
March 5, 2014

Exhibit 31.1

CERTIFICATION

I, Paul H. Sunu, certify that:

1. I have reviewed this Annual Report on Form 10-K of FairPoint Communications, Inc. (the "Company");
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the Company as of, and for, the periods presented in this report;
4. The Company's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in the Securities Exchange Act of 1934, as amended (the "Exchange Act") Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the Company and have:
   - (i) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
   - (ii) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
   - (iii) evaluated the effectiveness of the Company's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
   - (iv) disclosed in this report any change in the Company's internal control over financial reporting that occurred during the Company's most recent fiscal quarter (the Company's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting;
5. The Company's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Company's auditors and the audit committee of the Company's board of directors (or persons performing the equivalent functions):
   - (i) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Company's ability to record, process, summarize and report financial information; and
   - (ii) Any fraud, whether or not material, that involves management or other employees who have a significant role in the Company's internal control over financial reporting.

Date: March 5, 2014

/s/ Paul H. Sunu

Paul H. Sunu

Chief Executive Officer

Exhibit 31.2

CERTIFICATION

I, Ajay Sabherwal, certify that:

1. I have reviewed this Annual Report on Form 10-K of FairPoint Communications, Inc. (the "Company");
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the Company as of, and for, the periods presented in this report;
4. The Company's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in the Securities Exchange Act of 1934, as amended (the "Exchange Act") Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the Company and have:
   - (i) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
   - (ii) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
   - (iii) evaluated the effectiveness of the Company's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
   - (iv) disclosed in this report any change in the Company's internal control over financial reporting that occurred during the Company's most recent fiscal quarter (the Company's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting;
5. The Company's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Company's auditors and the audit committee of the Company's board of directors (or persons performing the equivalent functions):
   - (i) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Company's ability to record, process, summarize and report financial information; and
   - (ii) Any fraud, whether or not material, that involves management or other employees who have a significant role in the Company's internal control over financial reporting.

Date: March 5, 2014

/s/ Ajay Sabherwal

Ajay Sabherwal

Chief Financial Officer

Exhibit 32.1

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Annual Report on Form 10-K of FairPoint Communications, Inc. (the "Company") for the year ended December 31, 2013 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Paul H. Sunu, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

1. The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Paul H. Sunu

Paul H. Sunu
Chief Executive Officer

March 5, 2014

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

Exhibit 32.2

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Annual Report on Form 10-K of FairPoint Communications, Inc. (the "Company") for the year ended December 31, 2013 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Ajay Sabherwal, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

1. The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Ajay Sabherwal

Ajay Sabherwal
Chief Financial Officer

March 5, 2014

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

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

Form 10-K

(Mark One)

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

For the fiscal year ended December 31, 2014

or

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

For the transition period from to

Commission file number 001-32408

FairPoint Communications, Inc.
(Exact name of registrant as specified in its charter)

Delaware	**13-3725229**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**
521 East Morehead Street, Suite 500 Charlotte, North Carolina	**28202**
(Address of principal executive offices)	**(Zip Code)**

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

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	**Name of exchange on which registered**
Common Stock, par value $0.01 per share	The Nasdaq Stock Market LLC (Nasdaq Capital Market)

Securities registered pursuant to Section 12(g) of the Act:
None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☐ No ☒

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Act. Yes ☐ No ☒

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

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☒

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

Large accelerated filer	☐	Accelerated filer	☒
Non-accelerated filer	☐ (Do not check if a smaller reporting company)	Smaller reporting company	☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes ☐ No ☒

The aggregate market value of the common stock of the registrant held by non-affiliates of the registrant as of June 30, 2014 (based on the closing price of $13.97 per share) was $362,046,436.

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

As of February 27, 2015, there were 26,864,658 shares of the registrant's common stock, par value $0.01 per share, outstanding.

Documents incorporated by reference: Part III of this annual report on Form 10-K incorporates information by reference from the registrant's definitive proxy statement to be filed with the Securities and Exchange Commission pursuant to Regulation 14A under the Securities Exchange Act of 1934, as amended, within 120 days after the close of the registrant's fiscal year.

FAIRPOINT COMMUNICATIONS, INC.
ANNUAL REPORT ON FORM 10-K FOR THE YEAR ENDED DECEMBER 31, 2014

TABLE OF CONTENTS

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

Some statements in this Annual Report on Form 10-K for the fiscal year ended December 31, 2014 (this "Annual Report") are known as "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended (the "Securities Act"), and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). These forward-looking statements include, but are not limited to, statements about our plans, objectives, expectations and intentions and other statements contained in this Annual Report that are not historical facts. When used in this Annual Report, the words “expects,” “anticipates,” “intends,” “plans,” “believes,” “seeks,” “estimates”, "should", "could", "may" and similar expressions are generally intended to identify forward-looking statements. Because these forward-looking statements involve known and unknown risks and uncertainties, there are important factors that could cause actual results, events or developments to differ materially from those expressed or implied by these forward-looking statements, including factors discussed under “Item 1A. Risk Factors” and other parts of this Annual Report and the factors set forth below:

- future performance generally and our share price as a result thereof;
- restrictions imposed by the agreements governing our indebtedness;
- our ability to satisfy certain financial covenants included in the agreements governing our indebtedness;
- financing sources and availability, and future interest expense;
- our ability to repay or refinance our indebtedness;
- our ability to fund substantial capital expenditures;
- anticipated business development activities and future capital expenditures;
- the effects of regulation, including changes in federal and state regulatory policies, procedures and mechanisms including but not limited to the availability and levels of regulatory support payments, and the remaining restrictions and obligations imposed by federal and state regulators as a condition to the approval of the Merger (as defined hereinafter) and the Plan (as defined hereinafter);
- adverse changes in economic and industry conditions, and any resulting financial or operational impact, in the markets we serve;
- labor matters, including workforce levels, our workforce reduction initiatives, labor negotiations and any work stoppages relating thereto, and any resulting financial or operational impact;
- material technological developments and changes in the communications industry, including declines in access lines and disruption of our third party suppliers' provisioning of critical products or services;
- change in preference and use by customers of alternative technologies;
- the effects of competition on our business and market share;
- our ability to overcome changes to or pressure on pricing and their impact on our profitability;
- intellectual property infringement claims by third parties;
- failure of, or attack on, our information technology infrastructure;
- risks related to our reported financial information and operating results;
- availability of net operating loss ("NOL") carryforwards to offset anticipated tax liabilities;
- the impact of changes in assumptions on our ability to meet obligations to our company-sponsored qualified pension plans and post-retirement healthcare plans;
- the impact of lump sum payments related to accrued vested benefits under our company-sponsored qualified pension plans on future pension contributions;
- the effects of severe weather events, such as hurricanes, storms, tornadoes and floods, terrorist attacks, cyber-attacks or other natural or man-made disasters; and
- changes in accounting assumptions that regulatory agencies, including the Securities and Exchange Commission (the "SEC"), may require or that result from changes in the accounting rules or their application, which could result in an impact on earnings.

You should not place undue reliance on such forward-looking statements, which are based on the information currently available to us and speak only as of the date on which this Annual Report was filed with the SEC. We undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events, changes in our expectations or otherwise, except as required by law. However, your attention is directed to any further disclosures made on related subjects in our subsequent reports filed with the SEC on Forms 10-K, 10-Q and 8-K.

PART I

ITEM 1. BUSINESS

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

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

Our Business

We are a leading provider of advanced communications services to business, wholesale and residential customers within our service territories. We offer our customers a suite of advanced data services such as Ethernet, high capacity data transport and other IP-based services over our Next Generation Network (as defined herein), in addition to Internet access, high-speed data ("HSD") and local and long distance voice services. Our service territory spans 17 states where we are the incumbent communications provider primarily serving rural communities and small urban markets. Many of our local exchange carriers ("LECs") have served their respective communities for more than 80 years. We operate with approximately 1.1 million access line equivalents, including approximately 322,000 broadband subscribers, in service as of December 31, 2014.

We own and operate an extensive next-generation fiber network with more than 16,000 miles of fiber optic cable (the "Next Generation Network") in Maine, New Hampshire and Vermont, giving us capacity to support more HSD services and extend our fiber reach into more communities across the region. The IP/Multiple Protocol Label Switched ("IP/MPLS") network architecture of our Next Generation Network allows us to provide Ethernet, transport and other IP-based services with the highest level of reliability at a lower cost of service. This fiber network also supplies critical infrastructure for wireless carriers serving the region as their bandwidth needs increase, driven by mobile data from smartphones, tablets and other wireless devices. As of December 31, 2014, we provide cellular transport, also known as backhaul, through over 1,700 mobile Ethernet backhaul connections. We have fiber connectivity to more than 1,200 cellular telecommunications towers in our service footprint.

We were incorporated in Delaware in 1991 and grew through acquisitions. In March 2008, we completed the acquisition of the Northern New England operations from Verizon through the Merger. This acquisition significantly expanded our geographic platform in Maine, New Hampshire and Vermont increasing our access line density.

Transformation of our Business

We have transformed our network and are aligning our communications services to meet changing customer preferences and communications requirements. Over the past few years, we have made significant capital investments in our Next Generation Network to expand our business service offerings to meet the growing data needs of our business customers and to increase broadband speeds and capacity in our consumer markets. We have also focused our sales and marketing efforts on these advanced data solutions. Specifically, we built and launched high capacity Ethernet services to allow us to meet the capacity needs of our business customers as well as supply high capacity infrastructure to our wholesale customers.

Business and wholesale customers have a growing demand for bandwidth and are converting from services such as Asynchronous Transfer Mode ("ATM") and Frame Relay and dedicated transport using T-1s to Ethernet-based products. Businesses are also looking to take advantage of the flexibility of voice services via Voice over Internet Protocol ("VoIP"). Residential customer trends have shown an increasing adoption and demand for higher speed broadband services while traditional voice services are giving way to wireless and alternative carriers. Our plan is to continue to add advanced data products and services that meet our business and wholesale customers' needs while providing HSD options, attractive pricing features and appealing bundle offers that help retain our residential customer base.

We have been successful in meeting the needs of our wireless carrier customers through our Fiber to the Tower ("FTTT") initiative. We have seen an increase in fiber backhaul from wireless carriers since late 2010 and now have over 1,200 cell towers served with fiber. Our extensive fiber network of more than 16,000 miles of fiber optic cable in Maine, New Hampshire and Vermont is a competitive advantage in delivering FTTT services.

We believe recent regulatory reforms in Maine, New Hampshire and Vermont will serve to promote fair competition among communication services providers in that region. We continue to believe that there is a significant organic growth opportunity within these business markets given our extensive fiber network and IP-based product suite combined with our relatively low business market share in these areas.

Generation of Revenue

We offer a broad portfolio of services to meet the communications and technology needs of our customers, including bundling of services designed to simplify our customers' purchasing and management processes. Our basic offerings are outlined below.

See "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations" and "Item 8. Financial Statements and Supplementary Data" included elsewhere in this Annual Report for more information regarding our revenue sources and financial results, respectively.

Data and Internet Services

We believe data and Internet services are the cornerstone of our growth strategy for our business customers who require more advanced data solutions and our wholesale customers who experience capacity demands from their end users for higher speed services. We offer an extensive array of high capacity data services including: optical, Ethernet, IP services, Ethernet virtual circuit technology for cellular backhaul and private line special access services. We work with large businesses and carriers to deliver network capacity to meet their specific needs, including migrating networks from time division multiplexing to Ethernet-based high capacity circuits. We have recently expanded our portfolio to include Hosted PBX (Primary Branch Exchange) service over our Ethernet network. This service provides a cloud based voice offering for business customers. The service leverages our softswitch platform and uses a set of approved vendors for on-site hardware and maintenance support. Hosted PBX service allows us to continue to expand the services we offer to business customers, while leveraging our Ethernet network.

We offer internet access to both consumer and business customers through a variety of technologies leveraging both copper and fiber infrastructure, including digital subscriber line ("DSL"), dedicated fiber and lit buildings throughout our footprint. Certain of these services provide speeds up to 1 gigabit per second. In select markets, we also offer cable modem internet service, "Fiber to the Home" and wireless internet access.

Our data center rack space services offer businesses and public entities a physically secure, reliable location equipped with network connections to manage off-site disaster recovery, computing, storage and other IT equipment. FairPoint customer data centers are strictly controlled, secured environments with the necessary power, cooling and connectivity resiliency to provide customer business continuity. These data centers enable organizations to quickly and cost-effectively scale and consolidate their IT systems to meet demand without incurring construction or excess staffing costs while maintaining control over management of both equipment and data.

Voice Services

Local Calling Services. Local calling services enable the local customer to originate and receive an unlimited number of calls within a defined "exchange" area. Local calling services include basic local lines and local private lines. We provide local calling services to residential and business customers, generally for a fixed monthly charge and service charges for special calling features. In a LEC's territory, the amount that we can charge a customer for local service is generally determined by proceedings involving the appropriate state regulatory authorities.

Long Distance Services. We offer dedicated long distance services within our service areas on our network and through resale agreements with national interexchange carriers. In addition, through our wholly-owned subsidiary, FairPoint Carrier Services, Inc., we offer wholesale long distance services to communications providers that are not affiliated with us.

High-Cost Loop Funding. We receive Connect America Fund ("CAF") Phase I frozen support (formerly Universal Service Fund ("USF") high-cost support) subsidies to supplement the amount of local service revenue received by us to ensure that basic local service rates for customers in high-cost areas are consistent with rates charged in lower cost areas, as described below in "Regulatory and Legislative Environment".

Access

Network Transport Services. We offer network transport services to wholesale customers for their use in connecting end users to the interexchange networks of the wholesale customer. These network transport services include special access services, which are primarily DS-1 and DS-3 services, and high speed digital services, which are primarily Ethernet-based services provisioned over fiber and copper facilities.

Network Switched Access Service. Network switched access service enables long distance companies to utilize our local network to originate or terminate intrastate and interstate communications. Network switched access charges relate to long distance, or toll calls, that typically involve more than one company in the provision of telephone service, as well as to the termination of interexchange private line services. Since toll calls and private line services are generally billed to the customer originating the call or ordering the private line service, a mechanism is required to compensate each company providing services relating to the service. This mechanism is the access charge and we bill access charges to long distance companies and other customers for the use of our facilities to access the customer, as described below. Network switched access compensation is subject to the Federal Communications Commission ("FCC") CAF/intercarrier compensation ("ICC") Order (referred to hereafter as the "CAF/ICC Order"), as described in "Regulatory and Legislative Environment." Under the new rules, network switched access revenues are expected to continue to decline, but on a more predictable basis with fewer disputes.

Interstate Access Charges. We generate interstate access revenue when an interstate long distance call is originated by a customer in one of our exchanges to a customer in another state, or when such a call is terminated to a customer in one of our exchanges. We also generate interstate access revenue when an interexchange carrier orders special access to connect interexchange private line services, such as HSD services, to a customer in one of our local exchanges. We bill interstate access charges in the same manner as we bill intrastate access charges as described below; however, interstate access charges are regulated and approved by the FCC instead of the state regulatory authority.

Intrastate Access Charges. We generate intrastate access revenue when an intrastate long distance call involving an interexchange carrier is originated by a customer in one of our exchanges to a customer in another exchange in the same state, or when such a call is terminated to a customer in one of our local exchanges. We also generate intrastate access revenue when an interexchange carrier orders special access to connect interexchange private line services, such as HSD services, to a customer in one of our local exchanges. The interexchange carrier pays us an intrastate access fee for either terminating or originating the communication. We bill access charges relating to such service through our carrier access billing system and receive the access payment from the interexchange carrier. Access charges for intrastate services are regulated and approved by the state regulatory authority and are also subject to the rate transitions ordered by the FCC in its CAF/ICC order.

Other Services

We seek to capitalize on our LECs' local presence and network infrastructure by offering enhanced services to customers, including directory services, video and special purpose projects, among others.

Directory Services. Through our local telephone companies, we publish telephone directories in some of our locations. These directories provide white page listings, yellow page listings and community information listings. We contract with leading industry providers to assist in the sale of advertising and the compilation of information, as well as the production, publication and distribution of these directories. We do not publish directories in our northern New England markets and do not receive any portion of the directory advertising associated with the directories in those markets.

Video. In certain of our markets, we offer video services to our customers by reselling DirecTV content and providing cable and IP television video-over-DSL.

Value Added Services. In targeted markets, we offer additional value added and convenience-based services for our customers, including power utility offerings through a marketing arrangement and conference calling services for business and residential customers, among others. We are continually working to build stronger relationships with our customers as their needs evolve.

Special Purpose Projects. Upon request from customers, we provide project-based implementation support services. These services are provided on a time and materials basis at the customer location as part of a larger FairPoint solution. This capability allows us to better serve our customers and assist in filling resource gaps they may encounter when implementing new communications plans.

Our Markets

Most of our 32 LECs operate as the incumbent local exchange carrier ("ILEC") in each of their respective markets with business, wholesale and residential customers in addition to broadband subscribers. The following chart identifies the number of access line equivalents and percentage thereof by customer type as of December 31, 2014 and 2013:

Access Line Equivalents by Type	December 31, 2014		December 31, 2013	
Residential	467,561	41.5%	527,890	43.7%
Business	283,490	25.2%	291,836	24.2%
Wholesale	54,195	4.8%	59,859	4.9%
Total voice access lines	**805,246**	**71.5%**	**879,585**	**72.8%**
Broadband subscribers	321,624	28.5%	329,766	27.2%
Total access line equivalents (1)	**1,126,870**	**100.0%**	**1,209,351**	**100.0%**

Our operations are primarily focused in rural and small urban markets and are geographically concentrated in the northeastern United States. The following chart identifies the number of access line equivalents and percentage thereof by state as of December 31, 2014 and 2013:

Access Line Equivalents by State	December 31, 2014		December 31, 2013	
Maine	386,351	34.3%	424,345	35.1%
New Hampshire	323,859	28.7%	347,900	28.8%
Vermont	242,414	21.5%	254,931	21.1%
Florida	42,341	3.8%	44,155	3.7%
New York	40,510	3.6%	42,162	3.5%
Washington	35,432	3.1%	37,552	3.1%
Missouri	11,882	1.1%	12,650	1.0%
Ohio	11,263	1.0%	11,634	1.1%
Virginia	7,881	0.7%	8,049	0.7%
Kansas	5,769	0.5%	5,994	0.5%
Pennsylvania	5,177	0.5%	5,322	0.4%
Illinois	4,675	0.4%	4,971	0.4%
Oklahoma	3,720	0.3%	3,837	0.3%
Colorado	2,753	0.2%	2,914	0.3%
Other states (1)	2,843	0.3%	2,935	0.3%
Total access line equivalents	**1,126,870**	**100.0%**	**1,209,351**	**100.0%**

(1) Includes Massachusetts, Georgia and Alabama.

Sales and Marketing

FairPoint Communications owns and operates a fiber-core Ethernet network for delivery of advanced data, voice and video technologies to businesses, public and private institutions, consumers, wireless companies and wholesale re-sellers. With more than 16,000 miles of fiber optic cable and 84% of our central offices enabled for Ethernet services, FairPoint offers the largest such network in northern New England. Combined with our copper network, our infrastructure reaches more than 95% of businesses in Maine, New Hampshire and Vermont. By investing in a dense, high-performing, scalable network, FairPoint has bandwidth and transport capacity to support enhanced applications, including the next generation of mobile and cloud-based communications, such as small cell wireless backhaul technology, VoIP, data storage, managed services and disaster recovery. Our marketing approach emphasizes the benefits of our advanced network while utilizing customer-oriented, locally-focused messages that resonate by community and by customer segment.

Our focus on individual communities stems from the expertise of more than 3,000 employees who work and live in the markets where we provide service, as well as our belief that many customers in our territory prefer to do business locally. We view our visible local presence as a competitive differentiator because it enables a prompt and locally relevant approach to opportunities and challenges in sales and service, operations, and marketing. As a result, we often leverage the heritage of the LECs in our service areas and the brand recognition our long history of service provides.

We tailor our marketing offers, messaging and tactics to be effective and efficient for each customer audience using both call center and direct sales channels. Residential customers, who make up the largest part of our customer base, are directed to customer sales and service call centers based in the markets we serve. As we seek continued growth in business services, we leverage local call centers for sales and service efficiency among our small-office and home-office clientele, as well as a direct sales force that is trained to develop advanced, customized voice and data solutions. The direct sales force that focuses on small and medium businesses dedicates representatives to exclusive geographic territories and encourages involvement in the local business community during and after hours. The direct sales force focused on large and enterprise business utilizes both a geographic territory assignment and a named account program. The government, education and wholesale teams utilize a named account approach, focusing on specific new and existing customers within their annual sales plans.

We maintain teams of local sales support staff and experienced sales engineers who can design the right solution for each organization and guide new customers during the pre- and post-sales process. Support teams are customized based on account size and product set, and dedicated representatives are on call to answer questions, troubleshoot if necessary, and serve as a conduit to much broader resources, options and support, including our in-market Network Operations Center. We also place an emphasis on customer satisfaction and retention, with certain representatives focused on maintaining existing customer relationships.

Information Technology and Support Systems

We have a customer-focused approach to information technology ("IT") which allows for efficient business operations and supports revenue growth. Our approach is to simplify and standardize processes in order to optimize the benefits of our back-office and operation support systems. Specifically, our "simplify and optimize" initiative targets the reduction of redundant and manual processes to reduce cycle times, improve efficiency and deliver enhanced customer service.

Our back-office and operations support systems are a combination of integrated off-the-shelf packages that have been customized to support our operations. Our Northern New England operations carrier access billing and our Telecom Group billing operations are supported by outsourced third-party platforms.

Our systems are supported by a combination of employees and contractors. Our internal IT group supports data center operations, data network operations, internal help desk, desktop support and phases of the systems development life cycle. We use professional services firms for the majority of software development and maintenance.

Network Architecture and Technology

Rapid and significant changes in technology continue in the communications industry. Our success depends, in part, on our ability to anticipate and adapt to technological changes. With this in mind, we continue to evolve and expand our advanced Next Generation Network in our Northern New England operations. The Next Generation Network is an IP/MPLS network operating on a fiber transport infrastructure that has more than 16,000 miles of fiber optic cable. This network is the largest IP/MPLS based network in northern New England. We have made significant investments in our fiber optic network to expand our business service offerings to meet the growing needs of our customers and to increase broadband speeds and capacity in our consumer markets. We expect to continue to invest in expanding the reach of our fiber network to connect directly to customers' premises, cellular towers and data centers. We monitor the Next Generation Network utilization and augment capacity as needed to avoid network problems. We believe this network architecture will enable us to efficiently respond to these technological changes.

Next Generation Network transport systems in our Northern New England operations and our Telecom Group are a combination of Synchronous Optical Network, Dense Wave Division Multiplexing and Ethernet transport capable of satisfying customer demand for high speed bandwidth transport services. This system supports advanced services, including carrier Ethernet services and legacy data products, such as Frame Relay and ATM, facilitating delivery of advanced services as demand warrants.

In our LEC markets, DSL-enabled access technology has been deployed to provide significant broadband capacity to our customers. As of December 31, 2014, all of our central offices are capable of providing broadband services through DSL technology, cable modem and/or wireless broadband.

Our LEC network consists of 93 host central offices and 412 remote central offices, all with digital switches. Approximately 99% of our central offices are served by fiber optic facilities, which we own. The primary interconnection with other incumbent carriers is also fiber optic. Our outside plant consists of both fiber optic and copper distribution networks.

Competition

The telecommunications industry is comprised of companies involved in the transmission of voice, data and video communications over various media and through various types of technologies. The competitive environment continues to intensify as consumers and businesses are provided more options for a variety of services, pricing and service quality. Presently, there are four predominant types of local telephone service providers, or carriers, in the telecommunications industry: ILECs, CLECs, cable companies and wireless carriers. ILECs, which the majority of our 32 LECs operate as, were the traditional monopoly providers of the local telephone service prior to the passage of the Telecommunications Act of 1996 (the "1996 Act"). A CLEC is a competitor to local telephone companies that has been granted permission by a state regulatory commission to offer local telephone service in an area already served by an ILEC. CLECs typically offer voice and data services to their customers. Cable companies are the traditional video distribution providers in the market and are now selling packages of voice and data services along with their video services. Wireless competitors also have a significant presence in most markets, offering local and long distance voice services, along with mobile data offerings. As a result, competition in local exchange service areas for voice and data services has increased and is expected to continue to increase from these competitors.

Overall, we face intense competition from a variety of sources for our voice and data services in most of the areas we now serve, many of whom have greater resources and access to capital, and we expect that such competition will continue to intensify in the future. This competition has had an adverse impact on our access lines, broadband subscribers and revenues.

Regulations and technology change quickly in the communications industry, and these changes have historically had, and are expected to continue in the future to have, a significant impact on competitive dynamics. For instance, the ubiquity of wireless networks, coupled with technology changes, such as VoIP and data-driven devices (e.g., smartphones and computer tablets), is creating increased competition and technology substitution, a trend we expect will continue for the foreseeable future. Public monies in the form of stimulus funds to build broadband networks are also providing a new source of competition for us. In addition, many of our competitors have access to larger workforces or have substantially greater name-brand recognition and financial, technological and other resources than we do. Moreover, some of our competitors, including wireline, wireless and cable, have formed and may continue to form strategic alliances to offer bundled services in our service areas.

We estimate that, as of December 31, 2014, most of the customers that we serve have access to voice, network transport, video services and Internet services through a cable company. In addition, increasingly, both CLECs and cable companies have begun to penetrate the market for high capacity circuits for large businesses and carriers, including interexchange and wireless providers.

In addition, in most of our service areas, we face competition from wireless carriers for voice and mobile data services. A large portion of households in the United States have moved to a wireless only model. Wireless carriers, particularly those that provide unlimited wireless service plans with no additional fees for long distance, offer customers a substitution service for our access lines and are becoming an increasing threat to our local voice line business. In addition, wireless companies continue to expand their high-speed Internet offerings, which has resulted in more intense competition for our high-speed Internet customers. Additionally, traditional wireline applications, such as home security systems, are now moving to IP-based models, leveraging an Internet connection in place of a traditional phone line. Although there are unique benefits of our wireline phone service, such as land lines remaining active in the event of a home power outage, we expect continued migration to IP-based and wireless voice services.

We are actively addressing our competitive environment with a multi-faceted approach to increase our market share. This approach is comprised of acquisition programs and new product introductions, retention programs, win-back and upsell initiatives.

Our relatively low current market share provides us the opportunity to both win-back business customers who have left for another carrier as well as acquire new business. In order to better address the needs of our customers and prospects, we segment them across specific channels. Our focus for residential customers is to drive increasing penetration of high speed data customers. We are upgrading our access infrastructure to provide higher speed internet access services via high capacity copper and fiber facilities to more customers and communities each year. We are focusing on promotional programs that allow us to differentiate from cable operators, including price lock and multi-year discount programs. We believe bundled services continue to provide value to customers and, as such, we package our services in a range of price points.

In the business and government segments, our Next Generation Network with more than 16,000 miles of fiber allows us to deliver Ethernet and fiber based data services typically ranging from 1 megabit per second to 1 gigabit per second. Along with our high capacity data services, we offer competitively priced voice services through VoIP or time division multiplexing ("TDM"). Our three contiguous state footprint in northern New England, allows businesses with multi-state locations to work with one local vendor. Our geographic coverage and extensive fiber network is an attractive feature for our wholesale customers, such as wireless carriers seeking cell tower backhaul services, and national carriers seeking middle and last mile solutions.

We have a multi-channel retention team, responsible for developing and executing customer retention programs across all areas of FairPoint. Our save desk team has been enhanced to retain disconnecting customers. In addition, we have initiated proactive programs to address customers coming off of promotions and term contracts. Through early intervention, we expect to reduce churn and retain customers longer.

See "Regulatory and Legislative Environment" herein and "Item 1A. Risk Factors" included elsewhere in this Annual Report for more information regarding the competition that we face.

Employees

As of December 31, 2014, we employed a total of 3,052 employees, 1,914 of whom were covered by 13 collective bargaining agreements. As of December 31, 2014, 122 of our employees were covered by 6 collective bargaining agreements that expire during 2015. Our agreements with the International Brotherhood of Electrical Workers ("IBEW") and the Communications Workers of America ("CWA") in northern New England covering approximately 1,700 employees in the aggregate expired on August 2, 2014. Between August 2, 2014 and October 16, 2014 we were operating without contracts with these two labor unions and on October 17, 2014 the two labor unions initiated a work stoppage. On February 22, 2015, the membership of both labor unions ratified their respective collective bargaining agreements with us that expire in August 2018 and employees returned to work on February 25, 2015.

Intellectual Property

We believe we own or have the right to use all of the intellectual property that is necessary for the operation of our business as we currently conduct it.

Emergence from Chapter 11 Proceedings

On October 26, 2009 (the "Petition Date"), we filed voluntary petitions for relief under chapter 11 of title 11 ("Chapter 11") of the United States Code (the "Bankruptcy Code") in the United States Bankruptcy Court for the Southern District of New York (the "Bankruptcy Court"). These cases were jointly administered under the caption *In re FairPoint Communications, Inc.*, Case No. 09-16335 (each a "Chapter 11 Case", and collectively, the "Chapter 11 Cases"). On January 24, 2011 (the "Effective Date"), we substantially consummated our reorganization through a series of transactions contemplated by our Third Amended Joint Plan of Reorganization Under Chapter 11 of the Bankruptcy Code (as confirmed by the Bankruptcy Court, the "Plan").

The Plan provided for, among other things:

(i) the cancellation and extinguishment on the Effective Date of all our equity interests outstanding on or prior to the Effective Date, including but not limited to all outstanding shares of our common stock, par value $0.01 per share, options and contractual or other rights to acquire any equity interests,

(ii) the issuance of shares of our new common stock, par value $0.01 per share, and the issuance of warrants to purchase shares of our common stock to holders of certain claims in connection with a warrant agreement that we entered into with The Bank of New York Mellon, as the warrant agent, on the Effective Date, in accordance with the Plan,

(iii) the satisfaction of claims associated with

  (a) the credit agreement dated as of March 31, 2008, by and among FairPoint Communications, Spinco, Bank of America, N.A., as syndication agent, Morgan Stanley Senior Funding, Inc. and Deutsche Bank Securities Inc., as co-documentation agents, and Lehman Commercial Paper Inc., as administrative agent, and the lenders party thereto (as amended, supplemented, or otherwise modified from time to time, the "Pre-Petition Credit Facility"),

  (b) the 13-1/8% senior notes due April 1, 2018 (the "Old 13-1/8% Notes"), which were issued pursuant to the indenture, dated as of March 31, 2008, by and between Spinco and U.S. Bank National Association, as amended, and

  (c) the 13-1/8% senior notes due April 2, 2018 (the "New 13-1/8% Notes" and, together with the Old 13-1/8% notes, the "Pre-Petition Notes"), which were issued pursuant to the indenture, dated as of July 29, 2009, by and between, FairPoint Communications and U.S. Bank National Association, and

(iv) the termination by its conversion into the Old Revolving Facility (as defined below) of the Debtor-in-Possession Credit Agreement, dated as of October 27, 2009 (as amended, the "DIP Credit Agreement").

Our common stock began trading on The Nasdaq Stock Market LLC (the "NASDAQ") on January 25, 2011. In addition, on the Effective Date, FairPoint Communications and FairPoint Logistics, Inc. (collectively, the "Old Credit Agreement Borrowers") entered into a $1,075.0 million senior secured credit facility with a syndicate of lenders and Bank of America, N.A., as the administrative agent for the lenders, arranged by Banc of America Securities LLC (the "Old Credit Agreement"), comprised of a $75.0 million revolving facility (the "Old Revolving Facility") and a $1.0 billion term loan facility (the "Old Term Loan", and together with the Old Revolving Facility, the "Old Credit Agreement Loans"). We refinanced the Old Credit Agreement Loans on February 14, 2013. For more information about this refinancing, *see* "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources—Debt—February 2013 Refinancing" included elsewhere in this Annual Report

In connection with the Chapter 11 Cases, we also negotiated with representatives of the state regulatory authorities in Maine, New Hampshire and Vermont and agreed to regulatory settlements with respect to (i) certain regulatory approvals relating to the

Chapter 11 Cases and the Plan and (ii) certain modifications to the requirements imposed by state regulatory authorities as a condition to approval of the Merger (each a "Merger Order", and collectively, the "Merger Orders"). For more information regarding these regulatory settlements, *see* "Regulatory and Legislative Environment—State Regulation—Regulatory Conditions to the Merger, as Modified in Connection with the Plan" herein.

The Bankruptcy Court has entered final decrees closing all of the Company's bankruptcy cases due to such cases being administered.

Regulatory and Legislative Environment

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

We are required to comply with the Communications Act, which requires, among other things, that telecommunications carriers offer telecommunications services at just and reasonable rates and on terms and conditions that are not unreasonably discriminatory. The Communications Act contains requirements intended to promote competition in the provision of local services and lead to deregulation as markets become more competitive.

The FCC's CAF/ICC Order (as defined herein and sometimes referred to in the industry as the "Transformation Order") modified regulation for us beginning January 1, 2012. Effective January 1, 2012, the FCC eliminated the rural/non-rural distinction among ILECs and treats ILECs as either price cap or rate-of-return. Effective January 1, 2012, all of our ILECs are treated as price cap companies for CAF purposes, including the Telecom Group rate-of-return companies. However, the Telecom Group rate-of-return companies continue to be treated as rate-of-return for regulation of interstate switched and special access services. In addition, the FCC has preempted certain state regulation over our ILECs, including capping all state originating and terminating switched access charges and reducing terminating state switched access charges beginning July 1, 2012, in a two-year transition to make state switched access charges equal to interstate switched access charges. Starting July 1, 2014, all terminating usage rates have begun to transition to zero over the following four to seven years. As usage rates decrease under the FCC transition rules, resulting in decreased intercarrier compensation, carriers are allowed to increase end user access recovery charges to offset a substantial portion of the revenue losses, as described more fully below.

Overview of FCC CAF/ICC Order to Reform Universal Service and Intercarrier Compensation

On March 16, 2010, the FCC submitted the National Broadband Plan ("NBP") to the United States Congress. The NBP is a plan to bring high-speed Internet services to the entire country, including remote and high-cost areas. In accordance with the NBP, the FCC commenced several rulemakings that concern, among other things, reforming high-cost and low-income programs to promote universal service to make those funds more efficient while promoting broadband communications in areas that otherwise would be unserved and to address changes to interstate access charges and other forms of ICC.

On November 18, 2011, the FCC released its comprehensive landmark order to modify the nationwide system of universal support and the ICC system (the "CAF/ICC Order"). In this order, the FCC replaced all existing USF for price cap carriers with its CAF. The intent of CAF is to bring high-speed affordable broadband services to all Americans. The CAF/ICC Order fundamentally reforms the ICC process that governs how communications companies bill one another for exchanging traffic, gradually phasing down these charges.

In conjunction with the CAF/ICC Order, the FCC adopted a Notice of Proposed Rulemaking to deal with related matters, including but not limited to: (i) the actual cost model to be adopted for CAF Phase II funding, (ii) treatment of originating access charges, (iii) modifications to CAF for rate-of-return ILECs, (iv) development of CAF Phase II for mobility, (v) CAF Phase II competitive bidding rules, (vi) remote areas funding and (vii) IP to IP interconnection issues. In its Order released December 18, 2014, the FCC has stated its intention to extend its offer of CAF Phase II support to price cap carriers in early 2015 and to implement the CAF Phase II program for price cap carriers during 2015. It has finalized a cost model and has issued competitive bidding guidelines. It is not known how these rules may impact us.

CAF Phase I and Phase II Support. Pursuant to the CAF/ICC Order, beginning in 2012, we started receiving monthly CAF Phase I frozen support, which is based on and equal to all forms of USF high-cost support we received during 2011. This support is considered transitional funding while the FCC is developing its CAF Phase II program. FCC rules require that if we continue receiving CAF Phase I frozen support beyond 2012, which we have, we will have specific broadband spending obligations starting in 2013. According to the FCC rules, in 2013, we were required to spend, and did spend, one-third of the frozen support to "build and operate broadband-capable networks used to offer the provider's own retail broadband service in areas substantially unserved by an unsubsidized competitor." We received CAF Phase I frozen support in 2014 and our spending obligation has increased to two-thirds. Should we continue to receive CAF Phase I frozen support in 2015 as well, this spending obligation will increase to 100%. In February of 2013, we filed a petition with the FCC for a partial waiver of the spending obligations. On October 30, 2013, the FCC issued an order denying FairPoint's petition, but clarifying the spending rules in a manner that effectively provided the relief we requested by allowing us to certify to the spending obligation at the holding company level. The effect of this clarification continued into 2014 and is expected to continue in future years. Pursuant to a Further Notice of Proposed Rulemaking released on June 10, 2014, the FCC has requested comment on how frozen support will be handled in states where the price cap carrier does not exercise its right of first refusal on CAF Phase II support. We do not yet know whether FairPoint will exercise its right of first refusal for CAF Phase II support or how frozen support will be impacted if FairPoint does not accept CAF Phase II support in one or more states. Whether the change from CAF frozen support to CAF Phase II support occurs during 2015, or to what extent it occurs during 2015, is uncertain. We currently do not expect the transition from CAF Phase I frozen support to CAF Phase II funding to have a material impact on revenue in 2015.

In addition, pursuant to the revised CAF programs, during 2012, we were offered $4.8 million of one-time funding under the FCC's CAF Phase I incremental support program. Under this program, we can use some or all of this support subject to certain restrictions. We notified the FCC that we accepted $2.0 million of CAF Phase I incremental support funding, which is primarily being used in Vermont. On September 10, 2012, we filed a petition with the FCC asking it to waive its rules to allow us to use the remaining $2.8 million of CAF Phase I incremental support funding to bring high-speed broadband services to 697 customer locations in the state of Maine. This petition was withdrawn on August 27, 2013 in response to the FCC making the unused 2012 funding available in the second round of support offered in the 2013 CAF program. On May 22, 2013, the FCC filed the Report and Order in WC Docket 10-90, which offered the second round of support under the FCC's CAF Phase I incremental support program. We were offered $4.8 million, with the opportunity to oversubscribe to the funding. Additional funding was available in this program to the extent other price cap carriers declined their full amount and because the FCC made an additional $185.0 million available to price cap carriers for this round of support. On August 20, 2013, we applied for $3.3 million from the FCC's CAF Phase I incremental support program and were awarded only $2.9 million due to challenges filed against some of the locations by competing carriers.

The FCC has announced its intent to offer CAF Phase II funding to price cap ILECs early in 2015 and has adopted rules determining the obligations associated with receipt of such support. The amount of CAF funding that will be available to us has not been determined. We will have 120 days from the time of the offer to determine whether to accept the CAF II support, on a state by state basis. We risk significant reductions in the amount of CAF Phase II funding that will be made available to us compared to current CAF Phase I frozen support. The specific obligations that will be associated with future CAF funding include the obligation to serve a specified number of locations in specified census blocks; to provide broadband service to those locations with speeds of 10 megabits per second down and 1 megabit per second up; to achieve latency of less than 100 milliseconds; to provide data of at least 100 gigabytes per month; and to offer pricing reasonably comparable to pricing in urban areas. FairPoint has not determined whether it will accept any or all of the offered CAF Phase II support. For any states where FairPoint declines CAF Phase II support, it will continue to receive CAF Phase I frozen support until such time as the FCC conducts a Competitive Bidding Process. The FCC intends to conduct the competitive bidding process during 2016 and has determined that price cap carriers declining CAF Phase II support can participate in the competitive bidding process along with any other interested "Eligible Telecommunications Carriers" ("ETC"). The FCC has not yet adopted final rules governing the competitive bidding process.

FCC Rules for ICC Process. The CAF/ICC Order reformed rules associated with local, state toll and interstate toll traffic exchanged among communications carriers including ILECs, CLECs, cable companies, wireless carriers and VoIP providers. The revised rules, the majority of which were effective beginning July 1, 2012, establish separate rules for price cap carriers and rate-of-return carriers. Although the FCC order treats our rate-of-return carriers (including companies operating under average schedules) as price cap carriers for CAF funding, it treats them as rate-of-return carriers for purposes of ICC reform. For both price cap and rate-of-return carriers, the FCC established a multi-year transition of terminating traffic compensation to "bill and keep", or zero compensation. For both price cap and rate-of-return carriers, the FCC required carriers to establish fiscal year 2011 ("FY2011") baseline compensation, which was the amount of relevant compensation billed during the period beginning October 1, 2010 and ending September 30, 2011, and collected by March 31, 2012. This FY2011 revenue was used as a starting point for revenue for the transitional period, which is six years for price cap operations and nine years for rate-of-return operations. For each FairPoint ILEC, the FY2011 baseline revenue is reduced by a specified percent during each year of the transition, resulting in a target revenue for each tariff year. At the same time, the FCC rules require reductions in ICC rates for specified services and jurisdictions. As the recoverable revenue declines and the rates decline, any target revenue which will not be covered by ICC revenue can be recovered, in part, from end users through an access recovery charge ("ARC"). Price cap ILECs are permitted to implement monthly end user ARCs with five annual increases of no more than $0.50 for residential/single-line business consumers, for a total monthly ARC of no more than $2.50 in the fifth year; and no more than $1.00 (per month) per line for multi-line business customers, for a total of $5.00 (per month) per line in the fifth year, provided that: (1) any such residential increases would not result in regulated residential end user rates that exceed the $30.00 residential rate ceiling; and (2) any multi-line business customer's total subscriber line charge ("SLC") plus ARC does not exceed $12.20. Rate-of-return ILECs are permitted to implement monthly end user ARCs with six annual increases of no more than $0.50 (per month) for residential/single-line business consumers, for a total ARC of no more than $3.00 in the sixth year; and no more than $1.00 (per month) per line for multi-line business customers for a total of $6.00 (per month) per line in the sixth year, provided that: (1) such increases would not result in regulated residential end user rates that exceed the $30.00 Residential Rate Ceiling; and (2) any multi-line business customer's total SLC plus ARC does not exceed $12.20. We began billing the ARC charges for our price cap and rate of return companies in July 2012 as outlined by the rules above. If the combination of ICC and ARC revenue is not sufficient to cover the targeted revenue, then additional funding will be provided by the CAF in certain circumstances, though there is no guarantee that the ILEC will be made whole.

Vermont Incentive Regulation Plan

Effective April 1, 2011, we entered into an Incentive Regulation Plan ("IRP") governing our Vermont service territory within our northern New England operations. The IRP includes a 2011-2015 Amended Retail Service Quality Plan ("RSQP"), which significantly reduced FairPoint's exposure to retail service quality index ("SQI") penalties from $10.5 million to $1.65 million. As of March 31, 2013, the RSQP and related automatic SQI penalties were eliminated in Vermont based upon our achievement of certain retail service metrics. We believe the IRP has allowed our Northern New England operations' retail rates in Vermont to compete with those competitive carriers under a relatively level regulatory scheme, while preserving certain regulatory protections for consumers in areas where competition may not be adequate. The IRP was initially scheduled to expire on December 31, 2014, so, in order to maintain favorable regulatory treatment, which includes pricing flexibility, reduced regulatory oversight, elimination of automatic service quality penalties and more flexible rate filing options, FairPoint, with the support of the Vermont Department of Public Service ("VDPS"), filed with the Vermont Public Service Board ("VPSB") for a new IRP to begin January 1, 2015. However, the VPSB determined that it will review service quality issues in a separate docket before adopting the new IRP. As a result, FairPoint filed for, and the VPSB approved, an extension of the IRP until after the service quality investigation.

Legislation for Maine and New Hampshire

During the middle of 2012, legislation was enacted into law in both Maine and New Hampshire, which decreased the scope of retail telecommunications regulation for us, eliminating many of the state-specific Merger conditions and providing us with increased ability to compete in the Maine and New Hampshire telecommunications marketplace.

Effective August 10, 2012, the New Hampshire legislature enacted Chapter 177 (known as Senate Bill 48) ("SB 48") in its Session Laws of 2012. SB 48 created a new class of telecommunications carriers known as "excepted local exchange carriers" ("ELECs") and our Northern New England operations qualify as an ELEC in New Hampshire. SB 48 essentially leveled the regulatory scheme imposed upon New Hampshire telecommunications carriers and states that the New Hampshire Public Utilities Commission ("NHPUC") has no authority to impose or enforce any obligation on a specific ELEC that also is not applicable to all other ELECs in New Hampshire except with respect to:

(i) Obligations that arise pursuant to the Communications Act, as amended;
(ii) Obligations imposed on our Northern New England operations that arose prior to February 1, 2011 that relate to the availability of broadband services, soft disconnect processes and capital expenditure commitments within New Hampshire;
(iii) Obligations that relate to the provision of services to CLECs, interexchange carriers and wireless carriers, regardless of technology; or
(iv) Certain obligations related to telephone poles and carrier of last resort responsibilities.

In New Hampshire, beginning with the August 10, 2012 effective date of SB 48, our exposure to annual SQI penalties was eliminated (from $12.5 million to zero) and we have pricing discretion with respect to existing and new retail telecommunications services other than basic local exchange service and certain services provided to customers who qualify for the federal lifeline discount.

On April 12, 2012, Maine Governor Paul LePage signed Public Law 2011, Chapter 623 (also known as P.L. 2011, c.623) (the "Maine Deregulation Legislation") into law. The Maine Deregulation Legislation significantly deregulates retail telecommunications service offerings and reduces regulation applicable to ILECs, such as our Northern New England operations. The legislation eliminated regulatory oversight on all retail services other than the basic exchange service defined in Maine as Provider of Last Resort ("POLR") service and significantly reduced FairPoint's maximum exposure to SQI penalties, and reduced the number of reportable retail metrics.

Under the Maine Deregulation Legislation, our maximum exposure to annual SQI penalties, beginning with Maine's fiscal year ending July 31, 2013, decreased from $12.5 million to $2.0 million. From August 1, 2013 until July 31, 2014, we were not subject to automatic SQI penalties. On June 26, 2014, the Maine Public Utilities Commission ("MPUC") adopted a final rule

(Chapter 201), establishing new POLR SQI standards and reporting requirements, which began August 1, 2014. Under Chapter 201, the MPUC may open an investigation into the failure to meet any of the established standards and has the authority to impose penalties of up to $500,000 per standard. On January 13, 2015, the MPUC issued a Notice of Investigation to review our service quality in Maine.

During the year ended December 31, 2014 there were no SQI penalties. However, during the years ended December 31, 2013 and 2012, voice services revenues increased by $0.1 million and decreased by $0.2 million, respectively, due to SQI penalties.

The MPUC issued a show cause order on March 19, 2013 (the "Show Cause Order"), which required us to show cause by written comments filed by April 5, 2013, stating: (1) why the MPUC should not establish August 14, 2013 and April 14, 2014 as the deadlines for the remainder of our broadband build-out obligations which the Show Cause Order described as 85% and 87%, respectively, in Maine; and (2) why the MPUC should not require us to prepare and file, by April 30, 2013, a detailed engineering plan for the remaining portions of our build-out project. The Show Cause Order also required us to file, by April 5, 2013, a detailed report cataloging the number and percentage of addressable lines as of February 28, 2013. On August 14, 2013, the MPUC issued an Order Approving a Stipulation between Northern New England Telephone Operations LLC and the Office of the Maine Public Advocate (the "stipulation order"). In exchange for the termination of the show cause proceeding, the stipulation order required us to achieve, in Maine, 85% broadband addressability by August 14, 2013 and 87% by April 14, 2014. In calculating these percentages, there was no speed requirement for lines served by the legacy Asynchronous Transfer Mode ("ATM") network. Additionally, we are required to (1) contribute $100,000 to ConnectME upon completion of the broadband commitment (which contribution was made on April 14, 2014); and (2) spend an additional $11 million during the period from January 1, 2014 to December 31, 2016 on broadband facilities and services that benefit small businesses and residences in Maine. The money may be spent in our sole discretion although the expenditure must include 30 central office overlays. Central office overlays are defined as the addition of equipment to an existing central office that will enable customers served by that central office with loop lengths of up to 22,000 feet from that central office and who purchase our internet service to have the ability to access our Ethernet-based internet service. Additionally, we made a good faith effort to obtain CAF Phase I incremental funding for Maine in the amount corresponding to a broadband expenditure by us of $2.8 million, which was expected to result in CAF funding of approximately $1.0 million, but for which we actually received $0.9 million. Northern New England Telephone Operations LLC advised the MPUC on August 14, 2013 of the achievement of 85% broadband addressability by August 14, 2013 and advised the MPUC on April 11, 2014 of the achievement of 87% broadband addressability by April 14, 2014.

During 2014, FairPoint filed a rate case with the Maine PUC seeking increases in rates for POLR (Provider of Last Resort) customers and seeking Maine Universal Service Fund (MUSF) support for unrecovered costs associated with FairPoint's obligation to provide POLR service to high cost areas. The MPUC allowed for increases to the end user POLR rates, but denied MUSF support for FairPoint.

Access Charges

Our local exchange subsidiaries receive compensation from long distance telecommunications providers for the use of our subsidiaries' network to originate and terminate state and interstate interexchange traffic. With respect to interstate traffic, the FCC regulates the prices we may charge for this purpose, referred to as access charges, as a combination of flat monthly charges paid by end users, usage sensitive charges paid by long distance carriers and recurring monthly charges for use of dedicated facilities paid by long distance carriers. Intrastate access charges are regulated by the state commissions. The amount of access charge revenue that we will receive is subject to change. The FCC has adopted, in its CAF/ICC Order, a plan to resolve certain billing disputes related to ICC and to transition all terminating state and interstate ICC to zero over a six or nine year period for price cap and rate-of-return companies, respectively.

The FCC's CAF/ICC Order significantly changes the existing rates for access charges, which, combined with the increase in competition, have generally caused the aggregate amount of switched access charges paid by long distance carriers to decrease over time. The FCC, in a separate proceeding, is considering whether to modify price cap rules as they apply to special access and whether to restrict some of the pricing flexibility enjoyed by price cap ILECs, which includes some of our Northern New England operations. We cannot predict what changes, if any, the FCC may eventually adopt and the effect that any of these changes may have on our business.

Universal Service Regulation

Universal Service Fund Support. USF disbursements were distributed only to carriers that were designated as ETCs by a state regulatory commission. All of our LECs were designated as ETCs. As previously described, the FCC has replaced the legacy USF high-cost programs with its CAF programs.

We benefit indirectly from support to low-income users under the Lifeline and Linkup universal service programs. Effective April 1, 2012, the Linkup program was eliminated for all low-income subscribers except for Native Americans. Linkup is a program which pays 50% of the non-recurring charges, not to exceed $30.00 per month, associated with establishment of local telecommunications service. Also effective April 1, 2012, there were major reforms to the Lifeline program. Prior to the changes, Lifeline credits were based on four tiers of support. The first three tiers of federal support were replaced by a flat credit of $9.25 per month. The fourth tier, which relates to Native Americans, is unchanged. In addition, the FCC established revised eligibility criteria effective April 1, 2012. The revised eligibility criteria established in 2012 resulted in a reduction in lines eligible for Lifeline credits. The FCC order required the Universal Service Administration Company to establish a national database by the end of 2013 which is used to eliminate duplicate funding. The elimination of duplicate support could result in fewer customers choosing us for Lifeline service, with the potential that a portion of our Lifeline customers may prefer to use other carriers for this service.

Universal Service Contributions. Federal universal service programs are currently funded through a surcharge on interstate and international end user telecommunications revenues. Declining long distance revenues, the popularity of service bundles that include local and long distance services, and the growth in size of the fund, due primarily to increased funding to competitive ETCs, all prompted the FCC to consider alternative means for collecting this funding. As an interim step, the FCC has ordered that providers of certain VoIP services must contribute to federal universal service funding. The FCC also increased the percentage of revenues subject to federal universal service contribution obligations that wireless providers may use as their methodology for funding universal service. We cannot predict whether the FCC or Congress will require modification to any of the universal contribution rules, or the ultimate impact that any such modification might have on us or our customers.

Local Service Competition

The 1996 Act provides, in general, for the removal of barriers to market entry in order to promote competition in the provision of local telecommunications and information services. As a result, competition in our local exchange service areas will continue to increase from CLECs, wireless providers, cable companies, Internet service providers, electric companies and other providers of network services. Many of these competitors have a significant market presence and brand recognition, which could lead to more competition and a greater challenge to our future revenue growth.

Under the 1996 Act, all LECs, including both ILECs and CLECs, are required to: (i) allow others to resell their services, (ii) ensure that customers can keep their telephone numbers when changing carriers, referred to as local number portability, (iii) ensure that competitors' customers can use the same number of digits when dialing and receive nondiscriminatory access to telephone numbers, operator service, directory assistance and directory listing, (iv) ensure competitive access to telephone poles, ducts, conduits and rights of way and (v) compensate competitors for the cost of completing calls to competitors' customers from the other carrier's customers.

In addition to these obligations, ILECs are subject to additional requirements to: (i) interconnect their facilities and equipment with any requesting telecommunications carrier at any technically feasible point, (ii) unbundle and provide nondiscriminatory access to certain network elements, referred to as unbundled network elements ("UNEs"), including some types of local loops and transport facilities, at regulated rates and on nondiscriminatory terms and conditions, to competing carriers that would be "impaired" without them, (iii) offer their retail services for resale at wholesale rates, (iv) provide reasonable notice of changes in the information necessary for transmission and routing of services over the ILEC's facilities or in the information necessary for interoperability and (v) provide, at rates, terms and conditions that are just, reasonable and nondiscriminatory, for the physical co-location of equipment necessary for interconnection or access to UNEs at the ILEC's premises. Competitors are required to compensate the ILEC for the cost of providing these services.

Our Northern New England operations are subject to all of the above requirements. In addition, our non-rural operations are subject to additional unbundling obligations that apply only to Bell Operating Companies. In contrast to the unbundling obligations that apply generally to ILECs, these Bell Operating Company-specific requirements mandate access to certain facilities (such as certain types of local loops and inter-office transport and local circuit switching) even where other carriers would not be "impaired" without them.

Our Telecom Group rural operations are exempt from the additional ILEC requirements until the applicable rural carrier receives a bona fide request for these additional services and the applicable state authority determines that the request is not unduly economically burdensome, is technically feasible and is consistent with the universal service objectives set forth in the 1996 Act. This exemption is effective for all of the Telecom Group operations, except in Florida where the legislature has determined that all ILECs are required to provide the additional services as prescribed in the 1996 Act. Loss of a rural exemption by one or more of the Telecom Group operating companies could be achieved if the state commission grants such a petition filed by a competitor. Loss of the rural exemption would potentially expose the operation to additional local competition.

Long Distance Operations

The FCC has required that ILECs that provide interstate long distance services originating from their local exchange service territories must do so in accordance with "non-structural separation" rules. These rules have required that our long distance affiliates (i) maintain separate books of account, (ii) not own transmission or switching facilities jointly with the local exchange affiliate and (iii) acquire any services from their affiliated LEC at tariffed rates, terms and conditions. Our northern New England operations, which are Bell Operating Companies, are subject to a different set of rules allowing them to offer both long distance and local exchange services in the regions where they operate as Bell Operating Companies, subject to certain conditions with which we comply. Not all of our competitors must comply with these requirements. Therefore, these requirements may put us at a competitive disadvantage in the interstate long distance market.

Other Obligations under Federal Law

We are subject to a number of other statutory and regulatory obligations at the federal level. For example, the Communications Assistance for Law Enforcement Act ("CALEA") requires telecommunications carriers to modify equipment, facilities and services to allow for authorized electronic surveillance based on either industry or FCC standards. Under CALEA and other federal laws, we may be required to provide law enforcement officials with call records, content or call identifying information, pursuant to an appropriate warrant or subpoena.

The FCC limits how carriers may use or disclose customer proprietary network information ("CPNI") and specifies what carriers must do to safeguard CPNI provided to third parties. Congress, as well as some state legislatures, has enacted legislation to criminalize the unauthorized sale of call detail records and to further restrict the manner in which carriers make such information available.

In addition, if we seek in the future to acquire companies that hold FCC authorizations, in most instances we will be required to seek approval from the FCC prior to completing those acquisitions. The FCC has broad authority to condition, modify, cancel, terminate or revoke operating authority for failure to comply with applicable federal laws or rules, regulations and policies of the FCC. Fines or other penalties also may be imposed for such violations.

Broadband and Internet Regulation

The FCC rules have historically permitted broadband Internet access service to be provided by FairPoint as a non-telecommunications service (i.e., an “information service”) not subject to tariffing or rate or entry regulation. This classification generally treats broadband Internet access services offered by LECs, cable service providers and wireless competitors on an equal regulatory footing.

A Verizon petition asking the FCC to forbear from applying common carrier regulation to certain other broadband services sold by LECs primarily to larger business customers was deemed granted by operation of law on March 19, 2006 when the FCC did not deny the petition by the statutory deadline. The U.S. Court of Appeals for the District of Columbia Circuit has rejected a challenge to that outcome. The forbearance deemed granted to Verizon has been extended to our Northern New England operations by the FCC in its order approving the Merger. In October 2007, the FCC stated its intention to define more precisely the scope of forbearance obtained by Verizon, but it has not yet done so. On October 4, 2011, tw telecom, inc. filed a petition with the FCC asking it to reverse the forbearance granted to Verizon by operation of law on March 19, 2006. Comments have been filed in this proceeding by FairPoint and other parties. A similar petition was filed by a group of competing LECs on November 2, 2012 and comments have been filed with the FCC. The FCC may issue an order on either or both of these petitions at any time. We do not know how this will be resolved or the impact it may have on the Company if the FCC should reverse, eliminate or modify the forbearance granted to Verizon in 2006.

The FCC has imposed particular regulatory obligations on IP-based telephony. It has concluded that interconnected VoIP providers must comply with CALEA; provide enhanced 911 emergency calling capabilities; comply with certain disability access requirements; comply with the FCC's rules protecting the privacy of customer information; provide local number portability; and pay regulatory fees. The FCC has preempted some state regulation of VoIP.

Recently there have also been discussions among policy makers concerning "net neutrality." The FCC released a statement of net neutrality principles favoring customer choice of content and services available over broadband networks. It has adopted open Internet access rules applicable to all broadband Internet access providers. On January 14, 2014, the DC Circuit Court of Appeals (the "DC Court") vacated portions of the FCC’s December 21, 2010 Report and Order in the Manner of Preserving the Open Internet (GN Docket 09-191) (the "Open Internet Order"). In its decision, the DC Court vacated the FCC's anti-blocking and anti-discrimination rule related to Internet Service Providers, finding the FCC had failed to explain the basis of its authority in the Open Internet Order.

The FCC adopted new regulations governing "Broadband Internet Access Services" at its February 26, 2015 Open Meeting. Based on the information released about the yet-to-be released Order, “broadband Internet access service” will now be classified as a "telecommunications service" under Title II of the Communications Act. The Order prohibits "unjust and unreasonable practices" by broadband and Internet access providers. The Order prohibits broadband Internet access providers from blocking access to legal content, applications, services and non-harmful devices. It prohibits broadband Internet access providers from impairing or degrading lawful Internet traffic on the basis of content, applications, services or non-harmful devices. It also prohibits broadband Internet access providers from favoring some lawful Internet traffic over other lawful traffic in exchange for consideration and from prioritizing their own content or services over those of unaffiliated entities. Other than paid prioritization which is prohibited, broadband Internet access providers are allowed to engage in reasonable network management practices. Broadband services that do not flow over the public Internet are exempt from these rules.

The Order allows consumer complaints for broadband services to be brought to the FCC under Title II of the Communications Act. The Title II classification could bolster universal service support for broadband services by classifying broadband services as telecommunications services and therefore subject to universal service fees assessed on telecommunications services.

We cannot predict what impact, if any, new rules may have on our business, financial condition, results of operations, liquidity or the market price of our outstanding securities or if Congress will enact legislation otherwise addressing net neutrality issues.

State Regulation

The local service rates and intrastate access charges of substantially all of our telephone subsidiaries are regulated by state regulatory commissions which typically have the power to grant and revoke authority for authorizing companies to provide communications services. In some states, our intrastate long distance rates are also subject to state regulation. States typically regulate local service quality, billing practices and other aspects of our business as well. As described above, intrastate access charges are subject to the transition plan established in the recent CAF/ICC Order.

Most state commissions have traditionally regulated LEC pricing through cost-based rate-of-return regulation. In recent years, however, state legislatures and regulatory commissions in most of the states in which our telephone companies operate have either reduced the regulation of LECs or have announced their intention to do so and we expect this trend will continue. Such relief may take the form of mandatory deregulation of particular services or rates; or it may consist of optional alternative forms of regulation ("AFOR"), which may involve price caps or other flexible pricing arrangements. Some of these deregulatory measures are described in greater detail below. We believe that some AFOR plans allow us to offer new and competitive services faster than under the traditional regulatory regimes.

The following summary addresses significant regulatory actions by regulatory agencies in Maine, New Hampshire and Vermont that have affected or are expected to affect our Northern New England operations:

Regulatory Conditions to the Merger, as Modified in Connection with the Plan. As required by the Plan, as a condition precedent to the effectiveness of the Plan, we were required to obtain certain regulatory approvals, including approvals from the public utility commissions in Maine and New Hampshire and the VPSB. In connection with the Chapter 11 Cases, we negotiated with representatives of the state regulatory authorities in Maine, New Hampshire and Vermont with respect to (i) certain regulatory approvals relating to the Chapter 11 Cases and the Plan and (ii) certain changes impacting the Merger Orders. We agreed to regulatory settlements with the representatives for each of Maine, New Hampshire and Vermont regarding modification of each state's Merger Order (each a "Regulatory Settlement", and collectively, the "Regulatory Settlements") which were then approved by the regulatory authorities in those states. The Regulatory Settlements addressed service quality issues, broadband build-out requirements and certain other financial and management commitments. The commitments agreed to in these proceedings have, for the most part, been completed, are nearly completed, or are no longer applicable.

New Hampshire Regulatory Settlement. On July 7, 2010, the NHPUC provided its approvals for New Hampshire, including the Regulatory Settlement for New Hampshire (the "New Hampshire Regulatory Settlement"). Among other requirements, the New Hampshire Regulatory Settlement imposed obligations on us related to, among other things, retail service quality, broadband expansion, capital expenditure commitments and various management commitments. Nearly all of these obligations were eliminated statutorily during fiscal year 2012 upon the New Hampshire legislature's enactment of SB 48. *See* "Regulatory and Legislative Environment— Legislation for Maine and New Hampshire" herein for more information on SB 48.

With respect to our broadband expansion obligations, in conjunction with the Merger, we agreed to adhere to the broadband coverage commitments prescribed in the NHPUC's Order No. 24,823 in Docket DT 07-011; however, the final broadband build-out commitments were extended to March 31, 2013. In an order dated January 29, 2013, NHPUC approved our proposal to utilize certain SQI penalties incurred during fiscal years 2009 and 2010 for further broadband expansion and to extend the broadband build-out commitment deadline to December 31, 2013. Northern New England Telephone Operations LLC advised the NHPUC of the achievement of the broadband build-out commitment by December 31, 2013 on January 21, 2014.

Maine Regulatory Settlement. On July 6, 2010, the MPUC provided its approvals for Maine, including the Regulatory Settlement for Maine (the "Maine Regulatory Settlement"). Among other requirements, the Maine Regulatory Settlement imposed obligations on us related to, among other things, retail service quality, broadband expansion and various management commitments. Several of these requirements were eliminated statutorily during 2012 upon the enactment of the Maine Deregulation Legislation or expired in August 2013 concurrent with the expiration of our AFOR in Maine. *See* "Regulatory and Legislative Environment—Legislation for Maine and New Hampshire" herein for more information on the Maine Deregulation Legislation.

In addition, as noted above, in exchange for the termination of the show cause proceeding, the MPUC's stipulation order required us to achieve 85% broadband addressability in Maine by August 14, 2013 and 87% by April 14, 2014. Northern New England Telephone Operations LLC advised the MPUC on August 14, 2013 of the achievement of 85% broadband addressability by August 14, 2013. We achieved the 87% broadband addressability by the April 14, 2014 deadline and notified the MPUC of the completion. In calculating these percentages, there is no speed requirement for lines served by the legacy ATM network. Additionally, we are required to (1) contribute $100,000 to ConnectME upon completion of the broadband commitment, which we did on April 14, 2014 and (2) spend an additional $11 million during the period from January 1, 2014 to December 31, 2016 on broadband facilities and services that benefit small businesses and residences in Maine. The money may be spent in our sole discretion although the expenditure must include 30 central office overlays. Central office overlays are defined as the addition of equipment to an existing central office that will enable customers served by that central office with loop lengths of up to 22,000 feet from that central office and who purchase our internet service to have the ability to access our Ethernet-based internet service.

Vermont Regulatory Settlement. On December 23, 2010, the VPSB provided its approvals in Vermont, including the Regulatory Settlement for Vermont (the "Vermont Regulatory Settlement"). Among other requirements, the Vermont Regulatory Settlement imposed obligations on us related to, among other things, broadband expansion, capital expenditure commitments and various management commitments. Many of these requirements have been satisfied or are no longer applicable.

Local Government Authorizations

We may be required to obtain from municipal authorities permits for street opening and construction or operating franchises to install and expand facilities in certain communities. If we more fully enter into video markets, municipal franchises may be required for us to operate as a cable television provider. Some of these franchises may require the payment of franchise fees. We have historically obtained municipal franchises as required. In some areas, we will not need to obtain permits or franchises because the subcontractors or electric utilities with which we will have contracts already possess the requisite authorizations to construct or expand our networks. In association with the American Recovery and Reinvestment Act of 2009 and other federal government programs, there may be an increase in our requirements associated with road move requests pursuant to new funding for roads. It is not certain whether funding will be available to us for this potential obligation.

Environmental Regulations

Like all other local telephone companies, our 32 LECs are subject to federal, state and local laws and regulations governing the use, storage, disposal of and exposure to hazardous materials, the release of pollutants into the environment and the remediation of contamination. As an owner of real property, we may be subject to environmental laws that impose liability for the entire cost of cleanup at contaminated sites, regardless of fault or the lawfulness of the activity that resulted in contamination. We believe, however, that our operations are in substantial compliance with applicable environmental laws and regulations.

Other Information

We make available free of charge on our website, *www.fairpoint.com*, our reports on Forms 10-K, 10-Q and 8-K and all amendments to such reports as soon as reasonably practicable after we electronically file such material with, or furnish such material to, the SEC. Our filings with the SEC are available to the public over the Internet at the SEC's website at *www.sec.gov*, or at the SEC's Public Reference Room located at 100 F Street, N.E., Washington, DC 20549. Please call the SEC at 1-800-SEC-0330 for further information on the operation of the Public Reference Room.

ITEM 1A. RISK FACTORS

Any of the following risks could materially adversely affect our business, consolidated financial condition, results of operations, liquidity and/or the market price of our outstanding securities. The risks described below are not the only risks facing us. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial may also materially and adversely affect our business operations.

Risks Related to our Common Stock and Our Substantial Indebtedness

The price of our common stock may be volatile and may fluctuate substantially, which could negatively affect holders of our common stock.

The market price of our common stock may fluctuate widely as a result of various factors including, but not limited to, period-to-period fluctuations in our operating results, the volume of sales of our common stock, the limited number of holders of our common stock and the resulting limited liquidity in our common stock, dilution, developments in the communications industry, the failure of securities analysts to cover our common stock, changes in financial estimates by securities analysts, short interests in our common stock, competitive factors, regulatory developments, labor disruptions, economic and other external factors, general market conditions and market conditions affecting the stock of communications companies in general. 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 our 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, which could have a material adverse impact on our business, financial condition, results of operations, liquidity and/or the market price of our common stock.

We have substantial indebtedness which could have a negative impact on our financing options and liquidity position and prevent us from fulfilling our obligations under our indebtedness.

As of December 31, 2014, our total gross indebtedness was approximately $930.4 million (including approximately $1.6 million of capital leases) and $58.8 million was available for borrowing under the Revolving Facility, net of $16.2 million outstanding letters of credit. Our substantial indebtedness could have important consequences including:

- making it more difficult for us to satisfy our obligations under our debt agreements;
- requiring us to dedicate a significant portion of our cash flow from operations to paying the principal of and interest on our indebtedness, thereby limiting the availability of our cash flow to fund future capital expenditures, working capital and other corporate purposes;
- limiting our ability to obtain additional financing in the future for working capital, capital expenditures or acquisitions;
- limiting the amount of dividends we could pay to our stockholders;
- limiting our ability to refinance our indebtedness on terms acceptable to us or at all;
- restricting us from making strategic acquisitions or causing us to make non-strategic divestitures;
- limiting our flexibility in planning for, or reacting to, changes in our business and the communications industry generally;
- placing us at a competitive disadvantage compared with competitors that have a less significant debt burden; and
- making us more vulnerable to economic downturns and limiting our ability to withstand competitive pressures.

Our ability to continue to fund our debt service requirements and to reduce our indebtedness may be affected by general economic, financial market, competitive, legislative and regulatory factors, among other things. An inability to fund our debt service requirements, reduce our indebtedness or satisfy debt covenant requirements could have a material adverse effect on our business, financial condition, results of operations, liquidity and/or the market price of our outstanding securities.

In addition, our borrowings under our Credit Agreement ("Credit Agreement") bear interest at a variable rate based on a British Bankers Association LIBOR rate ("LIBOR"), subject to a floor of 1.25%. We have entered into interest rate swap agreements that effectively fix the interest rate on a combined notional amount of $170.0 million of these borrowings; however, these agreements are not effective until September 30, 2015. If the relevant LIBOR increases above the level of the floor, the interest payments on our variable rate debt will increase and adversely affect our cash flow. Conversely, while LIBOR remains below 1.25%, we may incur interest costs above market rates. While our interest rate swap agreements and any future agreements we enter into may limit our exposure to higher interest rates, these agreements may not offer complete protection from this risk.

Despite our substantial indebtedness level, we may be able to incur significant additional amounts of debt, which could further exacerbate the risks associated with our substantial indebtedness.

We may be able to incur substantial additional indebtedness in the future. Although the Indenture and our Credit Agreement contain restrictions on the incurrence of additional indebtedness, these restrictions are subject to a number of significant qualifications and exceptions and, under certain circumstances, the amount of indebtedness that could be incurred in compliance with these restrictions could be substantial. If new debt is added to our existing debt levels, the related risks that we now face could increase.

To operate and expand our business, service our indebtedness and meet our other cash needs, we will require a significant amount of cash, which may not be available to us. We may not be able to generate sufficient cash to repay or refinance our indebtedness at maturity or otherwise or to fund our operations, and may be forced to take other actions to satisfy such obligations, which may not be successful.

Our ability to make payments on, or repay or refinance, our indebtedness, to fund our operations and to fund planned capital expenditures, unanticipated capital expenditures and other cash needs will depend largely upon our financial condition and operating performance, including our ability to execute on our business plan. Our future operating performance, to a certain extent, is subject to general economic, financial, competitive, legislative, regulatory and other factors, such as any pension contributions required by the Employee Retirement Income Security Act of 1974, as amended ("ERISA"), that are beyond our control. For example, the minimum amount of pension contributions that we are required to make, which may be substantial, are determined under ERISA.

Our ability to borrow additional amounts, including under our Revolving Facility, if necessary to meet our cash needs, will depend on our ability to remain in compliance with the covenants contained in our debt agreements. If our operating results are not adequate to meet the financial ratio tests in our debt agreements or if we are unable to generate sufficient cash to service our debt requirements, we will be required to restructure or refinance our existing indebtedness, which we may not be able to accomplish under such circumstances on commercially reasonable terms or at all. If we are unable to refinance our debt or obtain new financing under these circumstances, we may have to consider other options, including:

- sales of assets;
- reduction or delay of capital expenditures, strategic acquisitions, investments and alliances;
- obtaining additional capital; or
- negotiations with our lenders to restructure or refinance the applicable debt.

Our ability to restructure or refinance our indebtedness may depend on the condition of the capital markets and our financial condition at such time, and any such restructuring and/or refinancing may come with higher interest rates and more onerous covenants. These alternative measures may not be successful and may not permit us to meet our scheduled debt service obligations.

An inability to generate sufficient cash from operations to repay or refinance our indebtedness at maturity or otherwise or to fund our operations could have a material adverse impact on our business, financial condition, results of operations, liquidity and/or the market price of our outstanding securities.

Our debt agreements contain restrictions that limit our flexibility in operating our business.

The Credit Agreement and the Indenture contain various covenants that limit our ability to engage in specified types of transactions. These covenants, under certain circumstances, limit us and our restricted subsidiaries' ability to, among other things:

- incur additional indebtedness;
- pay dividends on, repurchase or make distributions in respect of our capital stock or make other restricted payments;
- make certain investments;
- sell certain assets;
- create or incur liens;
- enter into sale and leaseback transactions;
- consolidate, merge, sell or otherwise dispose of all or substantially all of our assets; and
- enter into certain transactions with our affiliates.

A breach of any of these covenants could result in a default under the Credit Agreement or the Indenture. In addition, any debt agreements we enter into in the future may further limit our ability to enter into certain types of transactions. A breach of any of these covenants could result in a default under one or more of these agreements, including as a result of cross default provisions. Such default may allow the creditors to accelerate the related debt and may result in the acceleration of any other debt to which a cross-acceleration or cross- default provision applies.

In addition, the restrictive covenants in the Credit Agreement require us to maintain specified financial ratios and to satisfy other financial condition tests. Our ability to meet those financial ratios and tests depends on our ongoing financial and operating performance, which, in turn, is subject to economic conditions and to financial, market, and competitive factors, many of which are beyond our control. See “Item 7. Management's Discussion and Analysis of Financial Conditions and Results of Operations - Liquidity and Capital Resources” included elsewhere in this Annual Report for more information regarding the Credit Agreement and the Indenture.

FairPoint Communications is a holding company and depends upon the cash flows of its operating subsidiaries to service its indebtedness and meet its other cash flow needs.

FairPoint Communications is a holding company and conducts no operations. Accordingly, its cash flow and its ability to make payments on, or repay or refinance, its indebtedness and to fund planned capital expenditures and other cash needs will depend largely upon the cash flows of its operating subsidiaries and the distribution of cash by those subsidiaries to it through repayment of loans, dividends, management fees or otherwise. Distributions to FairPoint Communications from its subsidiaries will depend on their respective operating results and will be subject to restrictions under, among other things:

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

FairPoint Communications' subsidiaries have no obligation, contingent or otherwise, to make funds available, whether in the form of loans, dividends or other distributions, to it. Any inability to receive distributions from its subsidiaries could have a material adverse impact on our business, financial condition, results of operations, liquidity and/or the market price of our outstanding securities.

Limitations on our ability to use NOL carryforwards, and other factors requiring us to pay cash to satisfy our tax liabilities in future periods, may affect our ability to fund our operations, make capital expenditures and repay our indebtedness.

Effective December 31, 2011, our NOLs were substantially reduced by the recognition of gains on the discharge of certain debt pursuant to the Plan. In addition, our emergence from bankruptcy resulted in an ownership change for federal income tax purposes under Section 382 of the Internal Revenue Code of 1986, as amended (the "Code"). This followed previous ownership changes resulting from our initial public offering in February 2005, which resulted in an "ownership change" within the meaning of the United States federal income tax laws addressing NOL carryforwards, alternative minimum tax credits and other similar tax attributes. Moreover, the Merger resulted in a further ownership change for these purposes. As a result of these ownership changes, there are specific limitations on our ability to use these NOL carryforwards and other tax attributes from periods prior to our emergence from bankruptcy. Furthermore, additional limitations on the use of NOLs could arise in the future if a 50% or more change in ownership as defined under the Code were to occur. Although we do not expect that these limitations will materially affect our United States federal and state income tax liability in the near term, it is possible in the future if we were to generate taxable income in excess of the limitation on usage of NOL carryforwards that these limitations could limit our ability to utilize the carryforwards and, therefore, result in an increase in our United States federal and state income tax payments over the amount we otherwise would have, had we not experienced an ownership change. In addition, in the future we will be required to pay cash to satisfy our tax liabilities when all of our NOL carryforwards have been used or have expired. Limitations on our usage of NOL carryforwards, and other factors requiring us to pay cash taxes, would reduce the amount available to fund our operations, make capital expenditures and service our indebtedness in the future, which could have a material adverse impact on our business, financial condition, results of operations, liquidity and/or the market price of our outstanding securities.

Concentration of ownership among stockholders may prevent new or current investors from influencing significant corporate decisions.

Based on Schedules 13D and 13G filed by the respective holders, as of February 27, 2015, there are some institutional holders who own 5% or more of our outstanding common stock. As a result, these stockholders may be able to exercise significant control over all matters requiring stockholder approval, including the election of directors, amendment of our certificate of incorporation and approval of corporate transactions and could gain significant control over our management and policies as a result thereof.

Future sales or the possibility of future sales of a substantial amount of our common stock may depress the price of our common stock.

Future sales, or the availability for sale in the public market, of substantial amounts of our common stock could adversely affect the prevailing market price of our common stock and could impair our ability to raise capital through future sales of equity securities. The market price of our common stock could decline as a result of sales of a large number of shares of our common stock in the market 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 us to obtain additional capital by selling equity securities in the future at a time and at a price that we deem appropriate.

As of February 27, 2015, we had 26,864,658 shares of common stock outstanding. All such shares are freely traded except for any shares of our common stock that may be held or acquired by our directors, executive officers, employee insiders and other affiliates, as that term is defined in the Securities Act, which will be restricted securities under the Securities Act. Restricted securities may not be sold in the public market unless the sale is registered under the Securities Act or an exemption from registration is available. In addition, Angelo Gordon & Co., L.P. ("Angelo Gordon") and entities advised by Angelo Gordon have certain registration rights with respect to the common stock they hold or may acquire in the future.

We may issue shares of our common stock, or other securities, from time to time as consideration for future acquisitions and investments. In the event any such acquisition or investment is significant, the number of shares of our common stock, or the number or aggregate principal amount, as the case may be, of other securities that we may issue may in turn be significant. We may also grant registration rights covering these shares or other securities in connection with any such acquisitions and investments.

Risks Related to Our Business

We provide services to customers over access lines, and since we have been losing access lines, if our efforts to mitigate this decline and transition to alternative revenue is not successful, our business, financial condition, results of operations, liquidity and/or the market price of our outstanding securities may be materially adversely affected.

We, along with the telecommunications industry in general, have experienced a decline in access lines and network access revenues and will be further unfavorably impacted in the long-term by the FCC's recent CAF/ICC Order on intercarrier compensation. *See* "Risks Relating to Our Regulatory Environment" for specific risks associated with the impact of regulatory reform. We generate revenue primarily by delivering voice and data services over access lines. During the years ended December 31, 2014 and 2013, we experienced access line equivalent loss of 6.8% and 4.8%, respectively. These losses resulted mainly from competition, including competition from bundled offerings by cable companies, the use of alternate technologies, including wireless, as well as challenging economic conditions and the offering of DSL services.

We expect to continue to experience net access line losses. Our strategy of providing broadband and advanced data services, such as Ethernet over fiber and copper plant, may not be sufficient to offset the revenue impact of continued voice access line loss. Our inability to retain access lines and successfully offset such losses with alternative revenue could adversely affect our business, financial condition, results of operations, liquidity and/or the market price of our outstanding securities.

We provide access services to other communications companies, and if these companies were to find alternative means of providing services, become insolvent or experience substantial financial difficulties, our business, financial condition, results of operations, liquidity and/or the market price of our outstanding securities may be materially adversely affected.

We originate and terminate calls on behalf of long distance carriers and other interexchange carriers over our network in exchange for payment of switched access charges. Interstate and intrastate access charges represented approximately 33.3% of our total revenues during the twelve months ended December 31, 2014. Terminating switched access rates are scheduled to decline under the FCC's recent CAF/ICC Order. *See* "Risks Relating to Our Regulatory Environment" for specific risks associated with the impact of regulatory reform. We may not be successful in offsetting these declines through regulatory replacement mechanisms or operational means. Further, should one or more of these carriers find alternative means of providing services, loss of revenues from these carriers could have a material adverse impact on our business, financial condition, results of operations, liquidity and/or the market price of our outstanding securities. In addition, should one or more of the carriers that we do business with become insolvent or experience substantial financial difficulties, our inability to timely collect access charges from them could have a material adverse impact on our business, financial condition, results of operations, liquidity and/or the market price of our outstanding securities.

We are subject to competition that may materially adversely impact our business, financial condition, results of operations, liquidity and/or the market price of our outstanding securities.

We face intense competition from a variety of sources for our voice, network transport and Internet services in nearly all of the areas we now serve. Regulations and technology change quickly in the communications industry and changes in these factors historically have had, and in the future may have, a significant impact on competitive dynamics. In most of our service areas, we currently face competition from wireless carriers for voice services and increasingly for Internet services. As technology and economies of scale have improved, competition from wireless carriers has increased and is expected to further increase. We also face increasing competition from wireline and cable television companies for our voice and Internet services. We estimate that most of the customers that we serve have access to voice, network transport and Internet services through a cable television company. Wireline and cable television companies have the ability to bundle their services, which has and is expected to continue to intensify the competition we face from these providers. VoIP providers, Internet service providers and satellite companies also compete with our services and such competition has increased and is expected to continue to increase in the future. In addition, many of our competitors have access to a larger workforce and have substantially greater name-brand recognition and financial, technological and other resources including, in the case of cable television providers, free advertising on their video services.

In addition, consolidation and strategic alliances within the communications industry and the development of new technologies have had and may continue to have an effect on our competitive position. We 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 our business, financial condition, results of operations, liquidity and/or the market price of our outstanding securities.

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

- loss of customers (given the likelihood that when we lose customers for local service, we will also lose them for all related services);
- reduced network usage by existing customers who may use alternative providers for voice and data services;
- reductions in the prices we charge to meet competition; and
- increases in marketing expenditures and discount and promotional campaigns to incent customers to choose our services.

Price increases or price retention for certain products and customers may result in an acceleration of access line losses or an unanticipated decline in our growth-oriented products, which may materially adversely affect our business, financial condition, results of operations, liquidity and/or the market price of our outstanding securities.

From time to time, we expect to implement price increases for certain products and customers. Price increases may include those resulting from regulatory direction to reduce intercarrier compensation as well as price increases to increase end user billing. Although we intend for the price increase to provide a net revenue benefit, it is possible that customers will disconnect at a faster rate than they otherwise would have, which could negate the benefit of the price increase. Additionally, a weaker economic environment can result in increased demand by our customers for price reductions at the same or better level of service. In some of our more competitive markets, we may need to offer more favorable terms to our customers for contract renewal, which could result in reduced profitability. Despite continuous efforts by our sales force to retain customers, we cannot provide assurance that we will be able to renew customers dissatisfied with our contract renewal terms.

We 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 new service introductions occur frequently in the communications industry and industry standards evolve continually, including but not limited to a transition in the industry from primarily voice products to data services. We cannot predict the effect of these changes on our competitive position, profitability or the industry. Technological developments may reduce the competitiveness of our 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 our existing services. If we fail to adapt successfully to technological changes or obsolescence or fail to obtain access to important new technologies, we could lose customers and be limited in our ability to attract new customers and sell new services to our existing customers, which could have a material adverse impact on our business, financial condition, results of operations, liquidity and/or the market price of our outstanding securities.

The geographic concentration of our operations in Maine, New Hampshire and Vermont make our business susceptible to local economic and regulatory conditions and consumer trends, and an economic downturn, recession or unfavorable regulatory action in any of those states may materially adversely affect our business, financial condition, results of operations, liquidity and/or the market price of our outstanding securities.

Our service territory spans 17 states. As of December 31, 2014, we had approximately 1.1 million access line equivalents, of which approximately 85% are located in Maine, New Hampshire and Vermont (including certain of our Telecom Group service companies). As a result of this geographic concentration, our financial results will depend significantly upon economic conditions and consumer trends in these markets. From January 1, 2014 through December 31, 2014, our operations in Maine, New Hampshire and Vermont (including certain of our Telecom Group service companies) experienced a 7.2% decline in total access line equivalents in service, compared to a decline of 4.6% for the remainder of our operations during the same period. Deterioration in economic conditions in any of these markets could result in a further decrease in demand for our services and resulting loss of access line equivalents which could have a material adverse effect on our business, financial condition, results of operations, liquidity and/or the market price of our outstanding securities.

In certain areas of our service territory, the need for our services is seasonal (including either winter or summer), which may result in revenue fluctuations quarter over quarter. While we attempt to forestall seasonal disconnects or seasonal suspends, some revenue fluctuations continue to occur and once a customer disconnects or suspends, he or she may not return as a customer.

In addition, if state regulators in Maine, New Hampshire or Vermont were to take an action that is adverse to our operations in those states, we could suffer greater harm from that action by state regulators than we would from action in other states because of the concentration of our operations in those states.

We may need to defend ourselves against claims that we infringe upon others' intellectual property rights or may need to seek third-party licenses to expand our product offerings.

From time to time, we receive notices from third parties or are named in lawsuits filed by third parties claiming we have infringed or are infringing upon their intellectual property rights. We may receive similar notices or be involved in similar lawsuits in the future. Responding to these claims may require us to expend significant time and money defending our use of affected technology, may require us to enter into licensing agreements requiring license payments that we would not otherwise have to pay or may require us to pay damages. If we are required to take one or more of these actions, our operating expenses may increase. In addition, in responding to these claims, we may be required to stop selling or redesign one or more of our products or services, which could significantly and adversely affect the way we conduct business.

Similarly, from time to time, we may need to obtain the right to use certain patents or other intellectual property from third parties to be able to offer new products and services. If we cannot license or otherwise obtain rights to use any required technology from a third party on reasonable terms, our ability to offer new products and services may be restricted, made more costly or delayed.

We depend on third party providers for certain of our billing functions, IT services, including network support and improvements, and for the provision of our long distance and bandwidth services.

We have agreements with outside service providers to perform a portion of our billing functions and for our provision of long distance and bandwidth services. We also rely on certain third parties for IT services, including network support and improvements.

If these service providers are unable to adequately perform such services or if one of them experiences a significant degradation or failure with respect to such services, it could result in disruptions in our billing, IT systems and/or long distance and bandwidth services. Service failures could also result in internal controls deficiencies, which could adversely impact our overall control assessment of internal control in accordance with the Sarbanes-Oxley Act of 2002. Furthermore, if these agreements are terminated for any reason, we may be unable to find an alternative service provider in a timely manner or on terms acceptable to us, and may be unable ourselves to perform the services they provide.

With respect to the agreements governing our long distance and bandwidth services, these agreements are based, in part, on our estimate of future supply and demand and may contain minimum volume commitments. If we overestimate demand, we may be forced to pay for services we do not need. If we underestimate demand, we 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, we may not be able to meet this demand. In addition, if we cannot meet any minimum volume commitments, we may be subject to underutilization charges, termination charges or rate increases.

If any of the foregoing events occur with respect to our third-party providers, our business, financial condition, results of operations, liquidity and/or the market price of our outstanding securities could be materially adversely affected.

A network disruption could cause delays or interruptions of service, which could cause us to lose customers or otherwise adversely impact our business.

To be successful, we will need to continue to provide our customers with reliable and uninterrupted service over our expanded network. Disruptions in our service could occur as a result of events that are beyond our control. Some of the risks to our network and infrastructure include:

- physical damage to our transmission network including poles, cable and access lines;
- widespread power surges or outages;
- software defects in critical systems;
- capacity limitations resulting from changes in our customers' usage patterns;
- human error; and
- damage intentionally inflicted upon the network or our other infrastructure.

From time to time, in the ordinary course of business, we have experienced and in the future may experience short disruptions in our service due to factors such as cable damage, inclement weather and service failures of our third-party service providers. We could experience more significant disruptions in the future. In addition, certain portions of our network may lack adequate redundancy to allow for expedient recovery of service to affected customers. Disruptions may cause interruptions in service or reduced capacity for customers, either of which could cause us to lose customers and incur expenses or capital expenditures, which could have a material adverse impact on our business, financial condition, results of operations, liquidity and/or the market price of our outstanding securities.

Any failure or inadequacy of our IT infrastructure could harm our business.

A major failure or inadequacy of our IT infrastructure could harm our business. The capacity, reliability and security of our internal IT hardware and software infrastructure are important to the operation of our current and future business, which would suffer in the event of major system failures. Our inability to expand or upgrade our IT hardware and software infrastructure could have adverse consequences, which could include the delayed implementation of new service offerings, increased acquisition integration costs, service or billing interruptions, the issuance of service quality credits, and the diversion of development resources. If any of the foregoing events occur with respect to our IT infrastructure, our business, financial condition, results of operations, liquidity and/or the market price of our outstanding securities could be materially adversely affected.

Increases in broadband usage may cause network capacity limitations, resulting in service disruptions, reduced capacity or slower transmission speeds for customers.

Video streaming services and peer-to-peer file sharing applications use significantly more bandwidth than traditional Internet activity such as web browsing and email. As use of these newer services continues to grow, our high-speed Internet customers will likely use much more bandwidth than in the past. If this occurs, we could be required to make significant capital expenditures to increase network capacity in order to avoid service disruptions, service degradation or slower transmission speeds for our customers. Alternatively, we may choose to implement network management practices to reduce the network capacity available to bandwidth-intensive activities during certain times in areas experiencing congestion, which could negatively affect our ability to retain and attract customers in affected markets. While we believe demand for these services may drive high-speed Internet customers to pay for faster broadband speeds, we may not be able to recover the costs of the necessary network investments. This could result in an adverse impact to our business, financial condition, results of operations, liquidity and/or the market price of our outstanding securities.

A cyber-attack that bypasses our IT and/or network security systems causing an IT and/or network security breach may lead to unauthorized use or disabling of our network, theft of customer data, unauthorized use or publication of our intellectual property and/or confidential business information and could harm our competitive position or otherwise adversely affect our business.

Attempts by others to gain unauthorized access to organizations' IT systems or network elements are becoming more sophisticated and are sometimes successful. These attempts include covertly introducing malware to companies' computers and networks, impersonating authorized users, or "hacking" into systems. We seek to detect and investigate all security incidents and to prevent their recurrence, but, in some cases, we might be unaware of an incident or its magnitude and effect. Significant network security failures could result in the theft, loss, damage, unauthorized use or publication of our intellectual property and/or confidential business information; the theft, loss, damage, unauthorized use or publication of our customers' personally identifiable information, intellectual property and/or confidential business information; the unauthorized use or disabling of our network elements; or damage to our reputation among customers and the public. These consequences could harm our competitive position, subject us to additional regulatory scrutiny, expose us to litigation, reduce the value of our investment in research and development and other strategic initiatives or otherwise adversely affect our business. To the extent that any security breach results in inappropriate disclosure of our customers' or licensees' confidential information, we may incur liability as a result.

Natural catastrophes or terrorism may damage our network or adversely affect the financial markets.

A major earthquake, hurricane, tornado, winter storm, flood, fire, terrorist attack, cyber-attack or other similar disruption could damage our network, network operations centers, call centers, data centers, central offices, corporate headquarters or other facilities. Such an event could interrupt our services, adversely affect service quality, overwhelm customer support and ultimately harm our business and reputation. Although we have implemented measures that are designed to mitigate the effects of such events, we cannot predict all of the potential impacts of such events. We maintain insurance coverage for some of these events; however, the potential liabilities associated with these events could exceed the insurance coverage we maintain. Our inability to operate our networks or operate key systems as a result of such events, even for a limited period of time, may result in significant expenses or loss of customers and associated revenue.

Even if the major event does not directly impact us, these events could more broadly cause consumer confidence and spending to decrease or result in increased volatility in the United States and world financial markets and economy, which would adversely affect our business.

Because our post-emergence consolidated financial statements reflect fresh start accounting adjustments made upon emergence from bankruptcy and because of the effects of the transactions that became effective pursuant to the Plan, financial information in our post-emergence financial statements is not comparable to our financial information for periods prior to the Effective Date, including certain statements contained therein.

Upon our emergence from the Chapter 11 bankruptcy proceedings, we adopted fresh start accounting in accordance with guidance under the applicable reorganization accounting rules, pursuant to which our reorganization value was allocated to our assets in conformity with guidance requiring use of the purchase method of accounting for business combinations. In addition to fresh start accounting, our consolidated financial statements reflect all effects of the transactions contemplated by the Plan. Therefore, our consolidated statements of financial position and consolidated statements of operations subsequent to the Effective Date are not comparable in many respects to our consolidated statements of financial position and consolidated statements of operations for periods prior to the Effective Date.

Our actual operating results may differ significantly from our guidance.

From time to time, we have released and may continue to release guidance regarding our future performance that represents our management's best estimates as of the date the guidance is provided. This guidance, which consists of forward-looking statements, is prepared by our management and is qualified by, and subject to, the assumptions and the other information contained or referred to in the release. Our guidance is not prepared with a view toward compliance with the published guidelines of the American Institute of Certified Public Accountants, and neither our independent registered public accounting firm nor any other independent expert or outside party compiles or examines the guidance and, accordingly, no such person expresses any opinion or any other form of assurance with respect thereto.

Guidance is based upon a number of assumptions and estimates that, while presented with numerical specificity, are inherently subject to significant business, economic and competitive uncertainties and contingencies, many of which are beyond our control and are based upon specific assumptions with respect to future business decisions, some of which will change. We generally state possible outcomes as high and low ranges which are intended to provide a sensitivity analysis as variables are changed but are not intended to represent our actual results which could fall outside of the suggested ranges. The principal reason that we release this data is to provide a basis for our management to discuss our business outlook with analysts and investors. Notwithstanding this, we do not accept any responsibility for any projections or reports published by any such outside analysts or investors.

Guidance is necessarily speculative in nature, and it can be expected that some or all of the assumptions or the guidance furnished by us will not materialize or will vary significantly from actual results. Accordingly, our guidance is only an estimate of what management believes is realizable as of the date the guidance is provided. Actual results may differ from the guidance and the differences may be material. Investors should also recognize that the reliability of any forecasted financial data diminishes the farther in the future that the data is forecast. In light of the foregoing, users of this guidance are urged to put the guidance in context and not to place undue reliance on any such guidance.

Any inability to successfully implement our operating strategy or the occurrence of any of the events or circumstances discussed therein could result in the actual operating results being different than the guidance, and such differences may be material.

Our success will depend on our ability to attract and retain qualified management and other personnel.

Our success depends upon the talents and efforts of our senior management team. The loss of any member of our 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 our business, financial condition, results of operations, liquidity and/or the market price of our outstanding securities.

Our ability to successfully manage reductions in our workforce could have a material adverse impact on our results of operations.

Reductions in our workforce could adversely impact our ability to operate effectively and, therefore, could adversely impact our customer service, result in higher regulatory penalties and/or reduce our ability to achieve our operational goals.

A significant portion of our workforce is represented by labor unions and therefore subject to collective bargaining agreements. If disputes arise, or if we are unable to successfully renegotiate these agreements at an appropriate time or on terms acceptable to us, workers subject to these agreements could engage in work stoppages or other concerted activities, which could materially adversely impact our business, financial condition, results of operations, liquidity and/or the market price of our outstanding securities.

As of December 31, 2014, 1,914 of our 3,052 employees were covered by 13 collective bargaining agreements. After ratification of the collective bargaining agreements on February 22, 2015, our agreements with the IBEW and the CWA in northern New England covering approximately 1,700 employees in the aggregate expire in August 2018. Disputes with regard to the terms of any of these agreements or our potential inability to negotiate acceptable contracts with these unions in the future as our current contracts expire could result in, among other things, strikes, work stoppages or other slowdowns by the affected workers. We have experienced work stoppages in the past upon the expiration of collective bargaining agreements. If represented workers were to engage in future work stoppages or other concerted activities, we could experience a significant disruption of our operations, including network disruptions, IT failures, service backlog, internal control failures and/or regulatory compliance issues, and/or higher ongoing labor costs, either of which could have a material adverse effect on our business, financial condition, results of operations, liquidity and/or the market price of our outstanding securities. Additionally, future renegotiation of labor agreements or the provisions of such labor agreements could adversely impact our service reliability and significantly increase our costs for healthcare, wages and other benefits, which could have a material adverse impact on our business, financial condition, results of operations, liquidity and/or the market price of our outstanding securities.

The amount we are required to contribute to our qualified pension plans and post-retirement healthcare plans is impacted by several factors that are beyond our control and changes in those factors may result in a significant increase in future cash contributions.

We sponsor two qualified defined benefit pension plans covering certain employees that will provide them benefit payments, if eligible, after their retirement. These qualified pension plans are subject to funding requirements determined under ERISA and the Code. Required pension contributions may be impacted by several factors, including fluctuations in the discount rate used to calculate the funding target, unfavorable differences in actual experience relative to the assumptions used to determine the liabilities in these plans, the performance of the pension plan asset portfolio and the number of retirees in the qualified pension plan covering non-represented employees who elect to receive lump sum distributions. Unfavorable fluctuations or adverse changes in any of these factors are beyond our control and may diminish the funded status of our pension plans, thereby significantly increasing the contributions we are required to make under ERISA and the Code.

Non-represented employees covered by the pension plan have the option to elect to receive their accrued vested benefit in the form of a lump sum payment. Represented employees covered by the pension plan are no longer able to elect to receive their accrued vested benefit in the form of a lump sum effective with the expiration of the collective bargaining agreements with the IBEW and the CWA on August 2, 2014. As the discount rate used to calculate lump sum payments are currently significantly lower than the discount rate used to calculate the actuarial liabilities in the non-represented employee pension plan, the value of a lump sum payment exceeds the actuarial liability for the participant, which creates an actuarial loss in the pension plan for non-represented employees when paid. As such, a lump sum payment depletes the plan's assets more than the corresponding reduction in the plan's liability, which thereby reduces the funded status of the plan. If a significant number of eligible non-represented employees retire and elect to receive their accrued vested benefit in the form of a lump sum payment, which is beyond our control, the qualified pension plan covering these participants may experience a significant reduction in its funded status, which could materially increase future required contributions.

During the year ended December 31, 2014, we experienced actual returns on qualified pension plan assets totaling approximately 4.8%. The actuarially-determined funded status of our pension plans is dependent on the market value of the assets held by each plan. As such, a significant decline in the market value of the pension plans' assets could result in us having to make additional contributions to these plans.

Legislation enacted in 2014 changed the method for determining the discount rate used for calculating a qualified pension plan's unfunded liability for ERISA and Code purposes, which improved our pension plans' funded status. There are no assurances of any future legislation to provide similar relief or to extend the benefits of relief provided by this legislation. *See* "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations -Liquidity and Capital Resources -Pension Contributions and Post-Retirement Healthcare Plan Expenditures" included elsewhere in this Annual Report.

We also sponsor a post-retirement healthcare plan that provides medical, dental and life insurance benefits to eligible non-represented employees and former represented employees and, in some instances, to their spouses and families. The level of contributions required from us under these plans is dependent on the number of eligible retirees that elect coverage under the plan and the level and cost of health services used by those eligible retirees, each of which are beyond our control. Inflation in medical and dental costs in the future will increase future contributions. Effective August 28, 2014, active represented employees are no longer eligible for this post-retirement healthcare plan. Upon ratification of the collective bargaining agreements on February 22, 2015 and for 30 months thereafter, active represented employees who retire and meet the eligibility requirements and their spouses are eligible to receive certain monthly reimbursements of medical insurance premiums for healthcare plans until the retired employee reaches age 65 or dies. As a result of these factors, the payments we are required to make in relation to the above may also increase.

Increasing cash requirements to fund benefits under our qualified pension and post-retirement healthcare plans and the represented employee limited reimbursement arrangement may impact our liquidity position and limit our operational flexibility. These future cash requirements could have a material adverse impact on our business, financial condition, results of operations, liquidity and/or the market price of our outstanding securities.

Our long-lived assets and non-amortizable intangible assets may become impaired in the future.

At December 31, 2014, in addition to our net property, plant and equipment of $1,213.6 million, we have net amortizable intangible assets of $55.7 million and a non-amortizable intangible asset of $39.2 million. Amortizable long-lived assets must be reviewed for impairment whenever indicators of impairment exist. Non-amortizable long-lived assets are required to be reviewed for impairment on an annual basis or more frequently whenever indicators of impairment exist. Indicators of impairment could include, but are not limited to:

- an inability to perform at levels that were forecasted;
- a permanent decline in market capitalization;
- implementation of restructuring plans;
- changes in industry trends; and/or
- unfavorable changes in our capital structure, cost of debt, interest rates or capital expenditures levels.

Situations such as these could result in an impairment that would require a material non-cash charge to our results of operations and could have a material adverse effect on our consolidated results of operations.

Our operations require substantial capital expenditures.

We require significant capital expenditures to maintain, upgrade and enhance our network facilities and operations. While we have historically been able to fund capital expenditures from cash generated from operations and borrowings under our revolving facility, the other risk factors described in this section could materially reduce cash available from operations or significantly increase our capital expenditure requirements, and these outcomes may result in our inability to fund the necessary level of capital expenditures to maintain, upgrade or enhance our network. This could adversely affect our business, financial condition, results of operations, liquidity and/or the market price of our outstanding securities.

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

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

Risks Relating to Our Regulatory Environment

"Net neutrality" legislation or regulation could limit our ability to operate our broadband business profitably and to manage our broadband facilities efficiently.

In order to continue to provide quality high-speed data service at attractive prices and to offer new services, we believe we need the continued flexibility to respond to changing consumer uses and demands, to manage bandwidth usage efficiently and to continue to invest in our networks. In 2010, the FCC adopted "net neutrality" regulations that curtailed our operational flexibility. Although a federal appeals court vacated these rules in January 2014, the FCC could adopt rules or Congress could adopt legislation banning the blocking of Internet traffic and/or imposing non-discrimination requirements on broadband Internet access providers, such as us. Such regulation or legislation could adversely impact our ability to operate our high-speed data network profitably and to implement the upgrades and network management practices that may be needed to continue to provide high quality high-speed data services and could therefore negatively impact our ability to compete effectively.

The FCC adopted new regulations governing "Broadband Internet Access Services" at its February 26, 2015 Open Meeting. Based on the information released about the yet-to-be released Order, "broadband Internet access service" will now be classified as a "telecommunications service" under Title II of the Communications Act. The Order prohibits "unjust and unreasonable practices" by broadband and Internet access providers. The Order prohibits broadband Internet access providers from blocking access to legal content, applications, services and non-harmful devices. It prohibits broadband Internet access providers from impairing or degrading lawful Internet traffic on the basis of content, applications, services or non-harmful devices. It also prohibits broadband Internet access providers from favoring some lawful Internet traffic over other lawful traffic in exchange for consideration and from prioritizing their own content or services over those of unaffiliated entities. Other than paid prioritization which is prohibited, broadband Internet access providers are allowed to engage in reasonable network management practices, though it is not currently known what such practices will be defined to include. Broadband services that do not flow over the public Internet are exempt from these rules. The Order allows consumer complaints to be brought to the FCC under Title II of the Communications Act.

We cannot predict what impact, if any, new rules may have on our business, financial condition, results of operations, liquidity or the market price of our outstanding securities.

We are subject to significant regulations that could change in a manner adverse to us.

We operate in a heavily regulated industry. Laws and regulations applicable to us and our 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 us:

Risk of loss or reduction of network access charge revenues. A portion of our revenues comes from intrastate and interstate network access charges, which are paid to us by interexchange carriers for originating and terminating telecommunications traffic. Through 2011, our revenues also included various forms of high-cost USF support payments. Starting in 2012, these forms of universal service funding were replaced by CAF. See "Item 1. Business—Regulatory and Legislative Environment" included elsewhere in this Annual Report.

In the CAF/ICC Order, the FCC replaced all existing high-cost funding for price cap carriers with CAF funding. In CAF Phase I, FairPoint has received high-cost support frozen at 2011 levels but must dedicate an increasing portion of that support to the construction and operation of broadband in areas that are unserved by an unsubsidized competitor, while we remain subject to federal and state requirements to maintain voice service throughout our service territories. The FCC has announced its intent to offer CAF Phase II funding to price cap ILECs early in 2015, on a state-by-state basis, and has adopted rules determining the obligations associated with receipt of such support. The amount of CAF Phase II funding that will be available to us under a "right of first refusal" has not been determined. We risk significant reductions in the amount of CAF funding that will be made available to us compared to current CAF Phase I frozen support. The specific obligations that will be associated with future CAF funding include the obligation to serve a specified number of locations in specified census blocks, both of which are yet to be determined by the FCC; to provide broadband service to those locations with speeds of at least 10 megabits per second down and 1 megabit per second up; to achieve latency of less than 100 milliseconds; to provide data of at least 100 gigabytes per month; and to offer pricing reasonably comparable to pricing in urban areas. We risk not being able to accept CAF Phase II funding if the cost of the obligation exceeds the funding. If we refuse the CAF Phase II support, it will be offered to all ETCs through a competitive bidding process. The FCC has not yet announced the final rules governing the competitive bidding process nor the transition from CAF Phase I to CAF Phase II for price cap LECs that decline the "right of first refusal" in any particular state. Depending on whether other service providers bid and win such a process, we could lose all high-cost support in some states.

The CAF/ICC Order fundamentally reforms the ICC system that governs how communications companies bill one another for terminating traffic, gradually phasing out these charges. Additional reforms have been proposed. The reforms adopted by the FCC in its order will significantly change 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. Regulatory developments of this type could materially adversely affect our business, financial condition, results of operations, liquidity and/or the market price of our outstanding securities.

Risk of re-regulation of wholesale network services provided to retail and wholesale customers. Pursuant to forbearance from the regulation of high-speed interstate services that was deemed granted to Verizon in 2006 and transferred to FairPoint by the FCC in its order approving the Merger, we offer high-speed interstate services on a deregulated basis. The FCC has initiated a proceeding to investigate potential changes to the regulation of special access services. Several parties filed petitions in 2011 and 2012 asking the FCC to reverse the 2006 forbearance granted to Verizon. The FCC has issued a comprehensive data request to gather granular information from all providers of special access-like high speed services and this data request was completed in February 2015. The purpose of the data request is to provide the FCC with information that can be used to evaluate competition for special access-like services. It is not clear what actions, if any, the FCC will take in these proceedings. Orders resulting from these proceedings could adversely affect pricing and regulation of these services.

The FCC also is considering changes to its rules governing who contributes to the USF support mechanisms, and on what basis. Any changes in the FCC's rules governing the manner in which entities contribute to the USF could have a material adverse effect on our business, financial condition, results of operations, liquidity and/or the market price of our outstanding securities.

Risk of loss of statutory exemption from burdensome interconnection rules imposed on ILECs. Our rural LECs generally are exempt from the more burdensome requirements of the 1996 Act governing the rights of competitors to interconnect to ILEC 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 our rural LECs, we may be required to provide UNEs to competitors in our rural telephone company areas. As a result, more competitors could enter our traditional telephone markets than are currently expected, which could have a material adverse effect on our business, financial condition, results of operations, liquidity and/or the market price of our outstanding securities.

Risks posed by costs of regulatory compliance. Regulations create significant compliance and administrative costs for us. Our subsidiaries that provide intrastate services are generally subject to certification, tariff filing and other ongoing regulatory requirements by state regulators. Our interstate and intrastate access services are currently provided in accordance with tariffs filed with the FCC and state regulatory authorities, respectively. Challenges in the future to our tariffs by regulators or third parties or delays in obtaining certifications and regulatory approvals could cause us to incur substantial legal and administrative expenses, and, if successful, these challenges could adversely affect the rates that we are able to charge our customers, which could have a material adverse effect on our business, financial condition, results of operations, liquidity and/or the market price of our outstanding securities.

In addition, our Northern New England operations are subject to regulations not applicable to our rural operations, including but not limited to requirements relating to interconnection, the provision of UNEs, and the other market-opening obligations set forth in the 1996 Act. In approving the transfer of authorizations to us in the Merger, the FCC determined that our non-rural operations would be subject to the same regulatory requirements that currently apply to Bell Operating Companies. The FCC also stated that we would be entitled to the same regulatory relief that Verizon New England had obtained in the region. Any changes made in connection with these obligations or relief could increase our non-rural operations' costs or otherwise have a material adverse effect on our business, financial condition, results of operations, liquidity and/or the market price of our outstanding securities. Moreover, we cannot predict the precise manner in which the FCC will apply the Bell Operating Company regulatory framework to us.

Our business also may be affected by legislation and regulation imposing new or greater obligations related to open Internet access, assisting law enforcement, bolstering homeland security, pole attachments, minimizing environmental impacts, protecting customer privacy or addressing other issues that affect our business. We cannot predict whether or to what extent the FCC might modify its rules or what compliance with those new rules might cost. Similarly, we cannot predict whether or to what extent federal or state legislators or regulators might impose new network access, security, environmental or other obligations on our business.

Risk of losses from rate reduction. Our LECs that operate pursuant to intrastate 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 our business, financial condition, results of operations, liquidity and/or the market price of our outstanding securities.

For a more thorough discussion of the regulatory issues that may affect our business, *see* "Item 1. Business—Regulatory and Legislative Environment" included elsewhere in this Annual Report.

ITEM 1B. UNRESOLVED STAFF COMMENTS

Not applicable.

ITEM 2. PROPERTIES

We own or lease all of the properties material to our business. Our headquarters is located in Charlotte, North Carolina, in a leased facility. We also have administrative offices, maintenance facilities, rolling stock, central office and remote switching platforms, and transport and distribution network facilities in each of the 17 states in which we operate our LECs. Our administrative and maintenance facilities are generally located in or near the communities served by our LECs and our central offices are often within the administrative building. Auxiliary battery or other non-utility power sources are located at each central office to provide uninterrupted service in the event of an electrical power failure. Transport and distribution network facilities include fiber optic backbone and copper wire distribution facilities, which connect customers to remote switch locations or to the central office and to points of presence or interconnection with the long distance carriers. These facilities are located on land pursuant to permits, easements or other agreements. Our rolling stock includes service vehicles, construction equipment and other required maintenance equipment.

We believe each of our respective properties is suitable and adequate for the business conducted thereon, is being appropriately used consistent with past practice and has sufficient capacity for the present intended purposes.

ITEM 3. LEGAL PROCEEDINGS

From time to time, we are involved in litigation and regulatory proceedings arising out of our operations. For details of legal proceedings, *see* note (18) "Commitments and Contingencies" to our consolidated financial statements in "Item 8. Financial

Statements and Supplementary Data" included elsewhere in this Annual Report. Management believes that we are not currently a party to any legal or regulatory proceedings, the adverse outcome of which, individually or in the aggregate, would have a material adverse effect on our business, financial position or results of operations.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

General Market Information, Holders and Dividends

Our common stock is listed on the NASDAQ under the symbol "FRP". All of the common stock of the Predecessor Company was extinguished in accordance with the Plan on January 24, 2011. Our existing common stock began trading on the NASDAQ on January 25, 2011.

The following table sets forth, for the periods indicated, the high and low sales prices per share of our common stock as reported on the NASDAQ. The stock price information is based on published financial sources.

Year Ended December 31, 2014	High	Low
First quarter	$ 14.20	$ 11.13
Second quarter	15.83	12.54
Third quarter	16.91	13.05
Fourth quarter	17.13	13.30

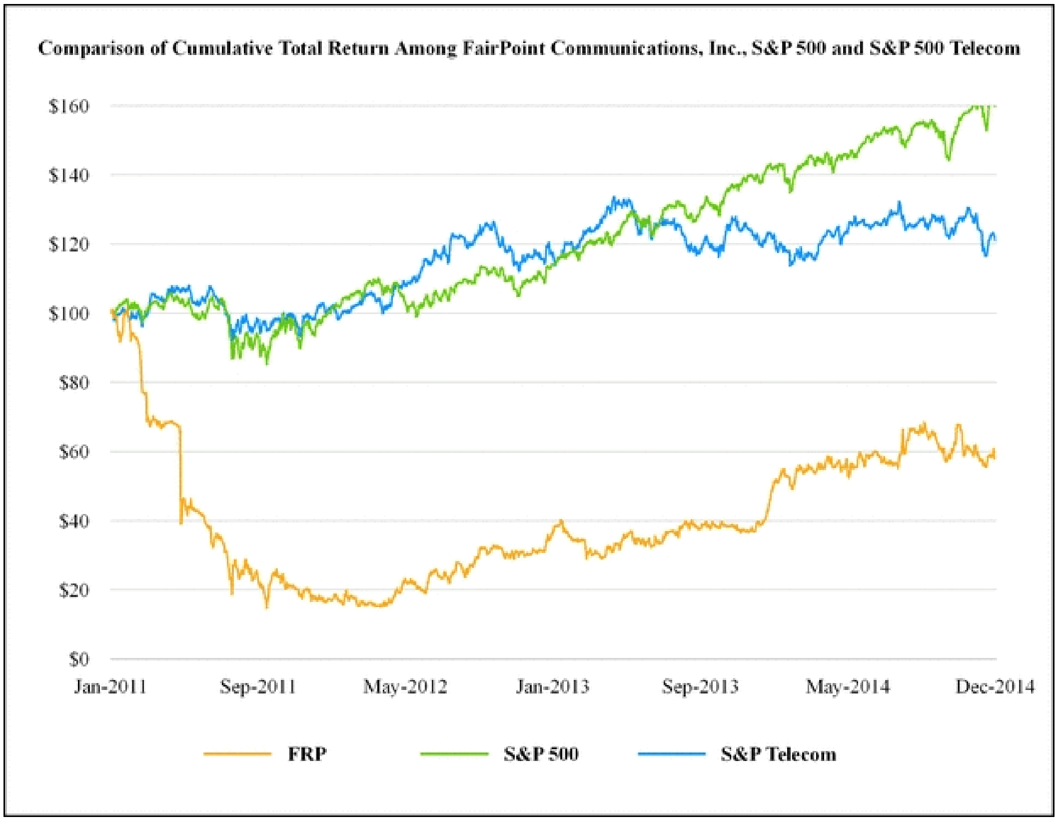
Year Ended December 31, 2013	High	Low
First quarter	$ 10.04	$ 6.96
Second quarter	9.12	6.77
Third quarter	9.99	7.99
Fourth quarter	11.71	8.92

No dividends were declared on any class of our common stock during the fiscal years 2014 or 2013. We currently do not pay any cash dividends on shares of our common stock and have no plans to pay cash dividends. Any determination to pay dividends in the future will be at the discretion of our board of directors and will depend upon limitations imposed by our results of operations, financial condition, contractual restrictions relating to indebtedness, restrictions imposed by applicable law and other factors our board of directors may deem relevant at the time.

As of February 27, 2015, there were approximately 123 holders of record of our common stock.

Performance Graph

Set forth below is a line graph comparing the cumulative total stockholder return on shares of our common stock against (i) the cumulative total return of all companies listed on the S&P 500 and (ii) the cumulative total return of the S&P 500 Telecom sector. The period compared commences on January 25, 2011, the date our common stock began trading on the NASDAQ after we emerged from Chapter 11 bankruptcy protection and ends on December 31, 2014. Because the value of the common stock of the Predecessor Company bears no relation to the value of our existing common stock, the graph below reflects only our existing common stock. This graph assumes that $100 was invested on January 25, 2011 in our common stock and in each of the market index and the sector index at the closing price for FairPoint Communications and the respective indices, and that all cash distributions were reinvested.



Securities Authorized for Issuance under Equity Compensation Plans

The table below provides information, as of the end of the most recently completed fiscal year, concerning securities authorized for issuance under our equity compensation plans. As of December 31, 2014, the FairPoint Communications, Inc. Amended and Restated 2010 Long Term Incentive Plan (the "Long Term Incentive Plan") was the only equity compensation plan under which securities of FairPoint Communications were authorized for issuance. The Board of Directors of the Company approved the Long Term Incentive Plan on March 14, 2014 and the stockholders of the Company approved it on May 12, 2014. The Long Term Incentive Plan, prior to its amendment and restatement, was approved by the Bankruptcy Court in connection with our emergence from bankruptcy. For a description of the material features of the Long Term Incentive Plan, *see* note (15) "Stock-Based Compensation" to our consolidated financial statements in "Item 8. Financial Statements and Supplementary Data" included elsewhere in this Annual Report.

Plan Category	(a) Number of securities to be issued upon exercise of outstanding options, warrants and rights [1]		(b) Weighted average exercise price of outstanding options, warrants and rights	(c) Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) [2]
Equity compensation plans approved by our stockholders	1,774,845	$	16.03	2,877,285
Total	**1,774,845**	**$**	**16.03**	**2,877,285**

(1) Includes 1,774,845 options to purchase shares of common stock under the Long Term Incentive Plan, of which 1,761,077 options were issued prior to the amendment and restatement of the Long Term Incentive Plan on May 12, 2014 with a weighted average exercise price of $16.04.

(2) Each stock option granted reduces the availability under the Long Term Incentive Plan by one share. Prior to the amendment and restatement of the Long Term Incentive Plan on May 12, 2014, each restricted stock award granted reduced the availability under the Long Term Incentive Plan by one share. On or after May 12, 2014, each restricted stock award granted reduces the availability by 1.35 shares. Upon the exercise of each stock option or vesting of each restricted share award, one new share of common stock will be issued.

Repurchase of Equity Securities

Under the Long Term Incentive Plan, employees may elect to have us withhold shares to satisfy minimum statutory federal, state and local tax withholding obligations arising from the vesting of restricted stock. When we withhold these shares, we are required to remit to the appropriate taxing authorities the market price of the shares withheld, which could be deemed a purchase of shares by us on the date of withholding. During the year ended December 31, 2014, an aggregate of 11,906 shares were withheld at an average price of $13.11 per share.

ITEM 6. SELECTED FINANCIAL DATA

As of January 24, 2011, we adopted fresh start accounting in accordance with guidance under the applicable reorganization accounting rules, pursuant to which our reorganization value was allocated to our assets in conformity with guidance under the applicable accounting rules for business combinations, using the purchase method of accounting for business combinations. In addition to fresh start accounting, our consolidated financial statements reflect all effects of the transactions contemplated by the Plan. Therefore, our consolidated statements of financial position and consolidated statements of operations subsequent to January 24, 2011 are not comparable in many respects to our consolidated statements of financial position and consolidated statements of operations for periods prior to January 24, 2011.

The summary financial data presented below represents portions of our consolidated financial statements and are not complete. The following financial information should be read in conjunction with "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations" and our consolidated financial statements and notes thereto contained in "Item 8. Financial Statements and Supplementary Data" included elsewhere in this Annual Report. Historical results are not necessarily indicative of future performance or results of operations. Amounts are in thousands, except access lines, per share data and units.

	Years Ended December 31, 2014	2013	2012	Three Hundred Forty-One Days Ended December 31, 2011	Predecessor Company: Twenty-Four Days Ended January 24, 2011	Predecessor Company: Year Ended December 31, 2010
Results of Continuing Operations:						
Revenues	$ 901,396	$ 939,354	$ 973,649	$ 963,112	$ 66,378	$ 1,070,986
Operating expenses, excluding impairment on intangible assets and goodwill	994,670	1,052,540	1,155,632	1,107,298	87,442	1,180,925
Impairment of intangible assets and goodwill	—	—	—	262,019	—	—
Loss from operations	(93,274)	(113,186)	(181,983)	(406,205)	(21,064)	(109,939)
Interest expense (1)	80,371	78,675	67,610	63,807	9,321	140,896
Reorganization items income (expense)(2)	—	—	—		897,313	(41,120)
Net (loss) income	$ (136,319)	$ (103,494)	$ (153,294)	(414,945)	$ 586,907	$ (281,579)
(Loss) earnings per share from continuing operations:						
Basic	$ (5.15)	$ (3.95)	$ (5.90)	(16.06)	$ 6.56	$ (3.15)
Diluted	$ (5.15)	$ (3.95)	$ (5.90)	(16.06)	$ 6.54	$ (3.15)
Cash dividends per share	$ —	$ —	$ —	—	$ —	$ —
Weighted average shares outstanding:						
Basic	26,449	26,190	25,987	25,838	89,424	89,424
Diluted	26,449	26,190	25,987	25,838	89,695	89,424
Financial Position (at period end) (3):						
Cash, excluding restricted cash (4)	$ 37,587	$ 42,700	$ 23,203	$ 17,350	$ 10,262	$ 105,497
Total assets	1,465,958	1,599,898	1,732,361	1,985,671	2,516,871	2,973,794
Total long-term debt (5)	914,590	918,122	957,000	1,000,000	1,000,000	2,520,959
Total stockholders' (deficit) equity	(600,284)	(309,196)	(317,813)	(106,143)	498,486	(587,418)
Operating Data (at period end):						
Access line equivalents (6)	1,126,870	1,209,351	1,278,434	1,346,894	N/A	1,417,290
Residential access lines	467,561	527,890	586,725	645,453	N/A	712,591
Business access lines	283,490	291,836	299,701	311,241	N/A	327,812
Wholesale access lines (7)	54,195	59,859	65,641	76,065	N/A	87,142
Broadband subscribers	321,624	329,766	326,367	314,135	N/A	289,745
Summary of Cash Flows:						
Net cash provided by (used in) operating activities	$ 121,063	$ 171,085	$ 192,775	$ 170,099	$ (81,091)	$ 191,626
Net cash used in investing activities	(118,363)	(95,951)	(144,307)	(162,850)	(12,477)	(197,268)
Net cash (used in) provided by financing activities	(7,813)	(55,637)	(42,615)	(161)	(1,667)	1,784
Capital expenditures	119,489	128,298	145,066	163,648	12,477	197,795

(1) Upon the October 26, 2009 filing of the Chapter 11 Cases and through January 24, 2011, in accordance with guidance under the applicable reorganization accounting rules, we ceased to accrue interest expense on the Pre-Petition Notes and our interest rate swap agreements as it was unlikely that such interest expense would be paid or would become an allowed priority secured or unsecured claim. We continued to accrue interest expense on the Pre-Petition Credit Facility, as such interest was considered an allowed claim pursuant to the Plan. All pre-petition debt was terminated on January 24, 2011. *See* "Item 7. Management's Discussion and Analysis—Liquidity and Capital Resources—Debt" included elsewhere in this Annual Report for further information on our pre-petition debt. We have accrued interest in normal course subsequent to January 24, 2011.

(2) Reorganization items represent income or expense amounts that have been recognized as a direct result of the Chapter 11 Cases, prior to January 24, 2011. On January 24, 2011, we emerged from Chapter 11 protection and substantially consummated our reorganization through a series of transactions contemplated by the Plan. Reorganization items income during the 24 days ended January 24, 2011 includes adjustments made upon application of the Plan and adoption of fresh start accounting, in addition to certain other items.

(3) The balance sheet data reflected at January 24, 2011 is representative of the Company after application of the Plan and the adoption of fresh start accounting.

(4) Cash excludes aggregate restricted cash of $0.6 million, $1.2 million and $7.5 million, $25.1 million and $4.1 million at December 31, 2014, 2013 , 2012, 2011 and 2010, respectively, and $86.8 million at January 24, 2011.

(5) Long-term debt at December 31, 2010 is included in "Liabilities subject to compromise" in our consolidated balance sheets.

(6) Total access line equivalents include voice access lines and broadband subscribers, which include DSL, wireless broadband, cable modem and fiber-to-the-premise.

(7) Wholesale access lines include residential and business resale lines and unbundled network element platform ("UNEP") lines.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion should be read in conjunction with our consolidated financial statements and the notes thereto in "Item 8. Financial Statements and Supplementary Data" included elsewhere in this Annual Report. The following discussion includes certain forward-looking statements. For a discussion of important factors, including the continuing development of our business, actions of regulatory authorities and competitors and other factors which could cause actual results to differ materially from the results referred to in the forward-looking statements, *see* "Item 1A. Risk Factors" and "Cautionary Note Regarding Forward-Looking Statements" included elsewhere in this Annual Report. Our discussion and analysis of financial condition and results of operations are presented in the following sections:

- Overview
- Executive Summary
- Labor Matters
- Regulatory and Legislative
- Basis of Presentation
- Results of Operations
- Non-GAAP Financial Measures
- Liquidity and Capital Resources
- Off-Balance Sheet Arrangements
- Summary of Contractual Obligations
- Critical Accounting Policies and Estimates
- New Accounting Standards
- Inflation

Overview

We are a leading provider of advanced communications services to business, wholesale and residential customers within our service territories. We offer our customers a suite of advanced services including Ethernet, SIP-Trunking, Hosted PBX, Managed Services, Data Center Rack Space, high capacity data transport and other IP-based services over our Next Generation Network, in addition to Internet access, HSD, and local and long distance voice services. Our service territory spans 17 states where we are the incumbent communications provider primarily serving rural communities and small urban markets. Many of our LECs have served their respective communities for more than 80 years. We operate with approximately 1.1 million access line equivalents, including approximately 322,000 broadband subscribers, in service as of December 31, 2014.

We own and operate our Next Generation Network, an extensive, next generation fiber network with more than 16,000 miles of fiber optic cable, in Maine, New Hampshire and Vermont, giving us capacity to support more HSD services and extend our fiber reach into more communities across the region. The IP/MPLS network architecture of our Next Generation Network allows us to provide Ethernet, transport and other IP-based services with the highest level of reliability at a lower cost of service. This fiber network also supplies critical infrastructure for wireless carriers serving the region as their bandwidth needs increase, driven by mobile data from smartphones, tablets and other wireless devices. As of December 31, 2014, we provide cellular transport, also known as backhaul, through over 1,700 mobile Ethernet backhaul connections. We have fiber connectivity to more than 1,200 cellular telecommunications towers in our service footprint.

Executive Summary

Our executive management team is focused on our 'four pillar' strategy of improving operations, changing the regulatory environment, transforming and growing revenue and aligning our human resources. Our mission is to provide reliable communications services with outstanding customer support across the 17 states we serve. During 2014, we continued to make substantial progress on our 'four pillar' business strategy to continue our transformation from a traditional telephone company into a provider of advanced communications services.

Access lines have historically been an important element of our business, although they are becoming less so as demand for bandwidth, Ethernet, high capacity data transport and advanced data services increases. Communications companies, including FairPoint, continue to experience a decline in access lines due to increased competition from CLECs, wireless carriers and cable television operators, increased availability of alternative communications services, including wireless and VoIP, and challenging economic conditions. Our objective is to transform our revenue by continuing to add advanced data products and services such as Ethernet, high capacity data transport and other IP-based services over our Next Generation Network, in addition to HSD services, to minimize our dependence on voice access lines. We will continue our efforts to retain customers to mitigate the loss of voice access lines through bundled packages, including video and other value added services.

Over the past few years, we have made significant capital investments in our Next Generation Network to expand our business service offerings to meet the growing data needs of our customers and to increase broadband speeds and capacity in our consumer markets. We have also focused our sales and marketing efforts on these advanced data solutions. Specifically, within the last few years, we built and launched high capacity Ethernet services to allow us to meet the capacity needs of our business customers as well as supply high capacity infrastructure to our wholesale customers. In the past year, Ethernet demand has remained strong amid increased price pressure. We continue to see a market trend, largely led by cable companies, of reduced Ethernet prices to business and wholesale customers. We continue to see growth in Ethernet units and speeds amid declining prices in the market. These advanced data services are our flagship product and are laying the foundation not only for new business but also for additional IP-based voice services in the future.

Additionally, we believe the bandwidth needs of cellular backhaul will continue to grow with the continued adoption of bandwidth-intensive technology. We expect to see wireless carriers seek to manage bandwidth costs as demand increases on existing fiber-connected towers. As we are providing wireless backhaul services to these wireless carriers, we expect to be working closely with them as technologies evolve, including the use of "small cell" architecture. We expect wholesale cellular backhaul services will help to partially offset the decline we have seen and expect to continue to see in legacy wholesale offerings, including TDM transport services, DS1s, DS3s and wholesale switched access.

We believe that our extensive fiber network, with more than 16,000 miles of fiber optic cable, including over 1,200 cellular telecommunications towers currently served with fiber, puts us in an excellent position to grow our revenue base as demand for cellular backhaul services increases. We expect to see demand increase on existing fiber connected towers where we would provision or expand mobile Ethernet backhaul connections or construct new fiber routes to cellular telecommunications towers.

Coupled with recent regulatory reform in the states of Maine, New Hampshire and Vermont that will serve to promote fair competition among communication services providers in the region, we believe that there is a significant organic growth opportunity within the business and wholesale markets given our extensive fiber network and IP-based product suite, combined with our relatively low market share in these areas.

Labor Matters

Two of our collective bargaining agreements that cover approximately 1,700 employees in the aggregate in northern New England expired on August 2, 2014. Between August 2, 2014 and October 16, 2014, we were operating without contracts with these two labor unions. On October 17, 2014, the two labor unions initiated a work stoppage and returned to work on February 25, 2015. For the year ended December 31, 2014, we recognized $73.6 million of labor negotiation related expenses, primarily for contracted services, contingent workforce expenses (including training) and legal, communications and public relations expenses. During the fourth quarter of 2014, we recognized $51.3 million of labor negotiation related expenses, which were partially offset by estimated lower union employee and vehicle expenses and other related expenses of approximately $33 million. We expect additional labor negotiation related expenses in the first quarter of 2015, which are expected to be partially offset by lower employee expenses.

On February 22, 2015, the membership of both labor unions ratified their respective collective bargaining agreements that expire in August 2018. Highlights of the collective bargaining agreements are as follows:

- The qualified defined benefit pension plan is closed to new employees. For existing employees, past accruals have been frozen and future defined benefit accruals will be at 50% of prior rates and capped after 30 years of total credited service.
- No change to the 401(k) plan with a dollar-for-dollar match up to 5% of eligible pay.
- The post-retirement healthcare plan for active represented employees has been eliminated, except for a transitional monthly stipend for eligible employees who elect to retire in the first 30 months of the contract period. To be eligible for the stipend an employee must, among other criteria, have been granted a pension under the qualified defined benefit pension plan. The monthly stipend shall not exceed $800 per retiree, plus an additional $400 for a retiree's spouse, and shall only be for reimbursement of medical insurance premiums. The stipend will be available only until the retiree reaches age 65, or dies, among other limitations.
- Employees will participate in the National Electrical Contractors Association, Inc. ("NECA") and International Brotherhood of Electrical Workers multi-employer medical plan. For 2015, our contribution is approximately equal to 79% of the cost had these employees been on our management health plan. Further, annual increases in our costs are capped at 4% per year.
- For existing represented employees there will be a delayed ratification payment of $400, with general wage increases of 1% in August 2016 and 2% in August 2017.
- New hire wage rate increases will occur at 12-month intervals versus 6-month intervals under the expired agreements.
- Paid sick days will be limited to 6 per year versus unlimited paid sick days under the expired agreements.
- Short-term disability will be limited to 6 months with a 60% of normal salary benefit versus 12 months and a 100% of normal salary benefit under the expired agreements.
- Prohibitions on layoffs included in the expired agreements were eliminated.
- Subcontracting rules were liberalized to permit subcontracting in a variety of circumstances including weather emergencies, spikes in service workloads and where management determines that due to evolving technological needs, different skills are necessary.
- Other operational rules such as call-outs, standby and transfers among locations were liberalized.
- The term of the collective bargaining agreements is from February 22, 2015 through August 4, 2018.

As a result of the changes to the Company's employee benefits resulting from the collective bargaining agreements, the pension and post-retirement healthcare plans will be remeasured and adjusted in the first quarter of 2015. We expect this to result in a decrease in the associated liabilities. Had the terms of the collective bargaining agreements relative to pension and post-retirement healthcare plans been used to value our pension and post-retirement healthcare obligations at December 31, 2014, assuming all assumptions used to value the obligations on that date (including discount rates) remained unchanged, we estimate that the accrued pension obligations would have been lower by approximately $35 million to $45 million and the accrued post-retirement healthcare obligations would have been lower by approximately $620 million to $640 million. We also estimate a decrease in the deferred income tax asset associated with the qualified pension and post-retirement healthcare obligations, partially offset by a decrease in the valuation allowance, of approximately $30 million to $40 million as of December 31, 2014. Since our long-term deferred tax assets are netted against our long-term deferred tax liabilities, this will result in an increase to the net long-term deferred tax liabilities reflected on our balance sheet. We do not expect any impact on our net operating loss carryforwards. Estimates as of December 31, 2014 are presented for comparative purposes only. The obligations for our qualified pension plan for represented employees and our post-retirement healthcare plan will each be remeasured and, therefore the actual results may differ materially from our December 31, 2014 estimates for reasons that may include, among others, changes in discount rates, changes in census data and/or changes in other assumptions. In addition, we estimate that the net periodic benefit costs will decline. Employee expenses in costs of services and selling, general and administrative expenses are estimated to decrease annually by approximately $8 million to $12 million due to our lower contribution for medical benefits for our represented employees.

Regulatory and Legislative

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

We are required to comply with the Communications Act which requires, among other things, that telecommunication carriers offer telecommunication services at just and reasonable rates and on terms and conditions that are not unreasonably discriminatory. The Communications Act also contains requirements intended to promote competition in the provision of local services and lead to deregulation as markets become more competitive.

For a detailed description of the federal and state regulatory environment in which we operate and the FCC's recently promulgated CAF/ICC Order and other recent regulatory changes, as well as the effects and potential effects of such regulation on us, *see* "Item 1. Business—Regulatory and Legislative Environment" included elsewhere in this Annual Report. We anticipate that the significant changes in both federal and state regulation described therein will not have a material impact in 2015. However, in the long run, we are uncertain of the ultimate impact as federal and state regulation continues to evolve.

Basis of Presentation

We view our business of providing data, voice and communications services to business, wholesale and residential customers as one reportable segment as defined in the Segment Reporting Topic of the Accounting Standards Codification ("ASC").

Results of Operations

The following table sets forth our consolidated operating results reflected in our consolidated statements of operations for the years ended December 31, 2014, 2013 and 2012, respectively.

The year-to-year comparisons of financial results are not necessarily indicative of future results (in thousands, except for access line equivalents):

	Years Ended December 31,		
	2014	2013	2012
Revenues:			

Voice services	$ 375,545	$ 405,159	$ 446,126
Access	300,440	321,812	336,000
Data and Internet services	175,490	161,423	142,911
Other	49,921	50,960	48,612
Total revenues	**901,396**	**939,354**	**973,649**
Operating expenses:			
Cost of services and sales, excluding depreciation and amortization	440,979	439,217	450,441
Selling, general and administrative expense, excluding depreciation and amortization	332,909	331,656	332,243
Depreciation and amortization	220,678	282,438	376,614
Reorganization related income	104	(771)	(3,666)
Total operating expenses	**994,670**	**1,052,540**	**1,155,632**
Loss from operations	**(93,274)**	**(113,186)**	**(181,983)**
Other income (expense):			
Interest expense	(80,371)	(78,675)	(67,610)
Loss on debt refinancing	—	(6,787)	—
Other	7,548	4,863	739
Total other expense	(72,823)	(80,599)	(66,871)
Loss before reorganization items and income taxes	**(166,097)**	**(193,785)**	**(248,854)**
Loss before income taxes	**(166,097)**	**(193,785)**	**(248,854)**
Income tax benefit	29,778	90,291	95,560
Loss before discontinued operations	**(136,319)**	**(103,494)**	**(153,294)**
Gain on sale of discontinued operations, net of taxes	—	10,044	—
Net loss	**$ (136,319)**	**$ (93,450)**	**$ (153,294)**
Access line equivalents:			
Residential	467,561	527,890	586,725
Business	283,490	291,836	299,701
Wholesale	54,195	59,859	65,641
Total voice access lines	**805,246**	**879,585**	**952,067**
Broadband subscribers	321,624	329,766	326,367
Total access line equivalents (1)	**1,126,870**	**1,209,351**	**1,278,434**

(1) On January 31, 2013, we completed the sale of our operations in Idaho which accounted for 5,604 access line equivalents as of December 31, 2012. In August 2012, we divested our pay phone operations in our northern New England footprint and completed the process of transitioning the related pay phone stations to the buyer in 2013. We currently retain access lines for any pay phone stations the buyer continues to operate, which accounted for 578, 881 and 2,867 access line equivalents as of December 31, 2014, 2013 and 2012, respectively.

Voice Services Revenues

We receive revenues through the provision of local calling services to business and residential customers, generally for a fixed monthly charge and service charges for special calling features. We also generate revenue through long distance services within our service areas on our network and through resale agreements with national interexchange carriers. In addition, through our wholly-owned subsidiary, FairPoint Carrier Services, Inc., we provide wholesale long distance services to communication providers that are not affiliated with us. For the years ended December 31, 2014 and 2013, voice access lines in service decreased 8.5% and 7.7% year-over-year, respectively, which directly impacts local voice services revenues and our opportunity to provide long distance services to our customers, resulting in a decrease of minutes of use. Excluding divestitures of the pay phone operations and the Idaho-based operations, on a pro forma basis, voice access lines in service for the year ended December 31, 2013 would have declined 7.1% year-over-year. The impact to voice access lines in service for the year ended December 31, 2014 would have been 8.4% on a pro forma basis excluding the divestiture of the pay phone operations. Cable competitors, in particular, have greatly reduced voice pricing. There are very limited areas within our footprint where cable voice service is not an alternative for our customers. We expect the trend of decline in voice access lines in service, and thereby a decline in aggregate voice services revenue, to continue as customers are turning to the use of alternative communication services as a result of ever-increasing competition.

We were subject to retail service quality plans in the states of Maine, New Hampshire and Vermont for the year ended December 31, 2012 pursuant to which we incurred SQI penalties resulting from any failure to meet the requirements of the respective plans. In New Hampshire, the automatic retail service quality plan was eliminated by SB 48, which was effective August 10, 2012, thereby extinguishing our exposure to SQI penalties in that state. In Vermont, effective March 31, 2013 we are no longer subject to the automatic retail service quality plan based on our achievement of certain retail service quality metrics. We were subject to the retail service quality plan in Maine through July 31, 2013; however, under the Maine Deregulation Legislation enacted in August 2012, automatic SQI penalties were eliminated starting in August 2013. In June 2014, Maine established a new POLR SQI standard, which may subject us to future SQI penalties. See "Item 1. Business—Regulatory and Legislative Environment" elsewhere in this annual report.

We adopted a separate performance assurance plan ("PAP") for certain services provided on a wholesale basis to CLECs in each of the states of Maine, New Hampshire and Vermont, pursuant to which we are required to issue performance credits in the event we are unable to meet the provisions of the respective PAP. Our maximum exposure to penalties under the PAPs has not been reduced by the recent deregulation legislation in Maine and New Hampshire or by the IRP in Vermont.

We receive support to supplement the amount of local service revenue received by us to ensure that basic local service rates for customers in high-cost areas are consistent with rates charged in lower cost areas. A portion of the CAF Phase I frozen support represents high-cost loop funding and is recorded as voice services revenue. We expect to receive the same level of CAF Phase I frozen support revenue in 2015 as we did in 2014, plus or minus small adjustments recorded during the respective quarters until CAF Phase II is implemented. The FCC has announced its expectation to complete its CAF Phase II model development, establish all obligations associated with the CAF Phase II program and offer support to price cap carriers early in 2015. If so, CAF Phase II funding could be implemented during 2015. We cannot determine whether we will accept or refuse any funding under the CAF Phase II support programs until all obligations associated with the funding have been determined. For the years ended December 31, 2014, 2013 and 2012, we recognized $13.1 million, $12.9 million and $14.1 million, respectively, of high-cost loop funding from the CAF Phase I frozen support program as local voice services revenues.

The following table reflects the primary drivers of year-over-year changes in voice services revenues (dollars in millions):

	Year Ended December 31, 2014 vs. December 31, 2013			Year Ended December 31, 2013 vs. December 31, 2012		
		Increase (Decrease)	%		Increase (Decrease)	%
Local voice services revenues, excluding:	$	(24.6)		$	(33.5)	
Divestiture of Idaho-based operations		(0.2)			(2.9)	
Decrease in accrual of PAP penalties (1)		0.4			2.1	
Decrease in high-cost loop credits to customers (2)		—			0.8	
(Increase) decrease in accrual of SQI penalties (3)		(0.1)			0.3	
Long distance services revenues		(5.1)			(7.8)	
Total changes in voice services revenues	**$**	**(29.6)**	**(7)%**	**$**	**(41.0)**	**(9)%**

(1) During the years ended December 31, 2014, 2013 and 2012, PAP penalties resulted in a decrease of $0.3 million, $0.7 million and $2.8 million, respectively, to local voice services revenues as a result of our failure to meet specified performance standards as defined by the provisions of the separate PAPs in Maine, New Hampshire and Vermont. In 2012, a majority of the penalty credits resulting from these commitments were recorded as a reduction to local voice services revenues with a small portion recorded to access revenues. However, as our wholesale business shifts from unbundled network elements ("UNEs") to access-driven services, a majority of penalty credits have followed and are now being recorded to access revenues. We expect this trend to continue and the impact of penalty credits on voice services revenues to decrease.

(2) In 2012, the VPSB and the MPUC each approved a tariff change whereby we are no longer required to provide high-cost loop credits to customers. For the year ended December 31, 2012, we recognized a reduction to local voice services revenues related to high-cost loop credits remitted to customers of $0.8 million.

(3) During the years ended December 31, 2013 and 2012, SQI penalties resulted in an increase of $0.1 million and a decrease of $0.2 million, respectively, to local voice services revenues. There were no SQI penalties during the year ended December 31, 2014.

Access Revenues

We receive revenues for the provision of network access through carrier Ethernet based products and legacy access products to end user customers and long distance and other competing carriers who use our local exchange facilities to provide interexchange services to their customers. Network access can be provided to carriers and end users that buy dedicated local and interexchange capacity to support their private networks (i.e. special access) or it can be derived from fixed and usage-based charges paid by carriers for access to our local network (i.e. switched access).

Carriers are migrating from legacy access products, such as DS1, DS3, frame relay, ATM and private line, to carrier Ethernet based products. During the year ended December 31, 2014, wholesale Ethernet circuits grew by 44.4% to 7,027 circuits at December 31, 2014 compared to 4,866 circuits at December 31, 2013. These carrier Ethernet based products are more sustainable, but generally, at the outset, have lower average revenue per user of broadband capacity than the legacy products they are replacing, resulting in a decline in access revenues. We expect the decline in access revenues to continue with customer migration. This decline in legacy access products is expected to be partially offset with the increasing need for bandwidth, including cellular backhaul and demand for carrier Ethernet based products, both of which are expected to increase over time. With the entry of cable competitors into the wholesale market, we continue to experience an increased decline in access lines due to this new competition. However, our extensive fiber network with more than 16,000 miles of fiber optic cable, including over 1,200 cellular telecommunications towers currently served with fiber, puts us in a position to grow our revenue base as demand for cellular backhaul and other Ethernet services expands. We also construct new fiber routes to cellular telecommunications towers when the business case presents itself. Additionally, we are evaluating new services to provide to carriers, including the selective use of dark fiber and professional services, to continue to meet carrier access needs.

As described above, we adopted a separate PAP for certain services provided on a wholesale basis to CLECs in each of the states of Maine, New Hampshire and Vermont, pursuant to which we are required to issue performance credits in the event we are unable to meet the provisions of the respective PAP. As our wholesale business shifts from UNEs to access-driven services, a majority of penalty credits have transitioned in the same manner and are now being recorded to access revenues instead of voice services revenue. Our maximum exposure to penalties under the PAPs has not been reduced by the recent deregulation legislation in Maine and New Hampshire or by the IRP in Vermont. In June 2014, Maine established a new POLR SQI standard. See "Item 1. Business—Regulatory and Legislative Environment" elsewhere in this annual report.

The following table reflects the primary drivers of year-over-year changes in access revenues (dollars in millions):

	Year Ended December 31, 2014 vs. December 31, 2013			Year Ended December 31, 2013 vs. December 31, 2012		
		Increase (Decrease)	%		Increase (Decrease)	%
Carrier Ethernet services [1]	$	12.5		$	8.3	
Decrease in revenues from special access pool [2]		(3.5)			(2.5)	
(Increase) decrease in accrual of PAP penalties [3]		2.4			(3.3)	
Divestiture of Idaho-based operations		(0.4)			(3.4)	
Legacy access services [4]		(32.4)			(13.3)	
Total changes in access revenues	**$**	**(21.4)**	**(7)%**	**$**	**(14.2)**	**(4)%**

(1) We offer carrier Ethernet services throughout our market to our business and wholesale customers, which include Ethernet virtual circuit technology for cellular backhaul. As of December 31, 2014, we provide cellular transport on our Next Generation Network through over 1,700 mobile Ethernet backhaul connections compared to over 1,300 as of December 31, 2013.

(2) In July 2013, we discontinued participation for wholesale DSL services within the National Exchange Carrier Association ("NECA") special access rate of return pool for our remaining rural operating companies.

(3) During the years ended December 31, 2014, 2013 and 2012, PAP penalties resulted in a decrease of $1.2 million, $3.6 million and $0.3 million to access revenues, respectively, as a result of our failure to meet specified performance standards as defined by the provisions of the separate PAPs in Maine, New Hampshire and Vermont.

(4) Legacy access services include products such as DS1, DS3, frame relay, ATM and private line.

Data and Internet Services Revenues

We receive revenues from monthly recurring charges for the provision of data and Internet services to residential and business customers through DSL technology, fiber-to-the-home technology, retail Ethernet, dedicated T-1 connections, Internet dial-up, high speed cable modem and wireless broadband.

We have invested in our broadband network to extend the reach and capacity of the network to customers who did not previously have access to data and Internet products and to offer more competitive services to existing customers, including retail Ethernet products. During the year ended December 31, 2014, retail Ethernet circuits grew by 20.6% to 5,611 circuits at December 31, 2014 compared to 4,651 circuits at December 31, 2013. Our broadband subscribers' penetration reached 39.9% of voice access lines at December 31, 2014 from 37.5% and 34.3% at December 31, 2013 and 2012, respectively. We expect to continue our investment in our broadband network to further grow data and Internet services revenues in the coming years.

The following table reflects the primary drivers of year-over-year changes in data and Internet services revenues (dollars in millions):

	Year Ended December 31, 2014 vs. December 31, 2013			Year Ended December 31, 2013 vs. December 31, 2012		
		Increase	%		Increase	%
Retail Ethernet services [1]	$	8.3		$	8.9	
Other data and Internet technology based services [2]		5.8			9.6	
Total changes in data and Internet revenues	**$**	**14.1**	**9%**	**$**	**18.5**	**13%**

(1) Retail Ethernet services revenue is comprised of data services provided through E-LAN, E-LINE and E-DIA technology on our Next Generation Network. During the years ended December 31, 2014, 2013 and 2012, we recognized $36.0 million, $27.7 million and $18.8 million, respectively, of retail Ethernet revenues from our Next Generation Network.

(2) Includes all other services such as DSL, T-1, dial-up, high speed cable modem and wireless broadband.

Other Services Revenues

We receive revenues from other services, including special purpose projects on behalf of third party requests, video services (including cable television and video-over-DSL), billing and collection, directory services, the sale and maintenance of customer premise equipment and certain other miscellaneous revenues. Other services revenues also include revenue we receive from late payment charges to end users and interexchange carriers. Due to the composition of other services revenues, it is difficult to predict future trends.

The following table reflects the primary drivers of year-over-year changes in other services revenues (dollars in millions):

	Year Ended December 31, 2014 vs. December 31, 2013			Year Ended December 31, 2013 vs. December 31, 2012		
		Increase (Decrease)	%		Increase (Decrease)	%
Special purpose projects [1]	$	1.1		$	2.7	
Late payment fees [2]		(1.3)			(1.6)	
Other [3]		(0.8)			1.2	
Total changes in other services revenues	**$**	**(1.0)**	**(2)%**	**$**	**2.3**	**5%**

(1) Special purpose projects are completed on behalf of third party requests.

(2) Late payment fees are related to customers who have not paid their bills in a timely manner.

(3) Other revenues were primarily attributable to directory services, billing and collections and various other miscellaneous services revenues.

Cost of Services and Sales

Cost of services and sales includes the following costs directly attributable to a service or product: salaries and wages, benefits (including stock based compensation), materials and supplies, contracted services, network access and transport costs, customer provisioning costs, computer systems support and cost of products sold. Aggregate customer care costs, which include billing and service provisioning, are allocated between cost of services and sales and selling, general and administrative expenses. We expect the cost of services and sales to fluctuate with revenue and decrease due to lower employee expenses and lower labor negotiation related expense as a result of the collective bargaining agreements described in “Labor Matters” herein.

The following table reflects the primary drivers of year-over-year changes in cost of services and sales (dollars in millions):

	Year Ended December 31, 2014 vs. December 31, 2013			Year Ended December 31, 2013 vs. December 31, 2012		
		Increase (Decrease)	%		Increase (Decrease)	%
Employee expense [1]	$	(24.9)		$	0.2	
Labor negotiation related expense [2]		38.3			—	
Severance expense [3]		(4.9)			3.4	
Access expense [4]		(1.6)			(7.9)	
Other [5]		(5.1)			(6.9)	
Total changes in cost of services and sales	**$**	**1.8**	**—%**	**$**	**(11.2)**	**(2)%**

(1) For the years ended December 31, 2014, 2013 and 2012, we recognized $162.4 million, $187.3 million and $187.1 million, respectively, of employee expense as cost of services and sales. The decrease for 2014 compared to 2013 is primarily due to the work stoppage described in "Labor Matters" herein as well as a reduction in headcount. The increase in employee expense for 2013 compared to 2012 was primarily due to an increase in overtime expenses and a decrease in capitalized labor, associated with a reduction in labor intensive capital projects in 2013 versus 2012, offset by fewer employees.

(2) Labor negotiation related expense is primarily related to contracted services incurred during the fourth quarter of 2014 as a result of the work stoppage described in "Labor Matters" herein.

(3) For the years ended December 31, 2014, 2013 and 2012, we recognized $1.0 million, $5.9 million and $2.5 million of severance expense, respectively, attributed to the reduction in our workforce.

(4) Access expense continues to decrease primarily due to increased usage of our IP infrastructure, which has enabled us to significantly reduce the associated costs of utilizing other carriers.

(5) Other cost of services and sales has decreased primarily due to lower network expenses and motor vehicle expenses.

Selling, General and Administrative Expense

Selling, general and administrative ("SG&A") expense includes salaries and wages and benefits (including stock based compensation, pension and post-retirement healthcare) not directly attributable to a service or product, bad debt charges, taxes other than income, advertising and sales commission costs, customer billing, call center and information technology costs, professional service fees and rent for administrative space. We expect SG&A expense to decrease primarily due to favorable changes in our represented employee qualified pension plan and because of the elimination of the represented employee post-retirement healthcare plan for all employees who retire after August 28, 2014 as well as lower labor negotiation related expense as a result of the collective bargaining agreements described in "Labor Matters" herein. However, changes in discount rates and assumptions may offset some of these expense savings. The following table reflects the primary drivers of year-over-year changes in SG&A expense (dollars in millions):

	Year Ended December 31, 2014 vs. December 31, 2013			Year Ended December 31, 2013 vs. December 31, 2012		
		Increase (Decrease)	%		Increase (Decrease)	%
Employee expense (1)	$	(12.8)		$	1.4	
Labor negotiation related expense (2)		33.3			—	
Pension expense (3)		(8.1)			8.4	
Post-retirement healthcare expense (4)		2.6			3.6	
Operating taxes		(3.9)			(3.2)	
Bad debt expense (5)		(0.6)			2.3	
Severance expense (6)		(1.2)			(1.7)	
Other (7)		(8.0)			(11.4)	
Total changes in SG&A expense	**$**	**1.3**	**—%**	**$**	**(0.6)**	**— %**

(1) For the years ended December 31, 2014, 2013 and 2012, we recognized $110.9 million, $123.7 million and $122.3 million, respectively, of employee expense in SG&A expense. The decrease in 2014 compared to 2013 is primarily attributable to a reduction in the accrual of our annual performance bonus amounts, a reduction in headcount and the work stoppage described in "Labor Matters" herein. Wages and benefits per employee were slightly higher in 2013 compared to 2012.

(2) Labor negotiation related expense is primarily related to contingent workforce expenses as well as communications and public relations, legal and training expenses.

(3) Decrease in 2014 net periodic benefit cost for our qualified pension plans is primarily attributable to a decrease in service cost and lower amortized actuarial losses resulting from a reduction in the projected benefit obligation of approximately $41.1 million at December 31, 2013 compared to December 31, 2012 and was partially offset by an increase in interest cost. The decrease in the projected benefit obligation is attributed to an increase of approximately 84 basis points in the weighted average discount rate used to value the qualified pension obligations at December 31, 2013 compared to December 31, 2012. Increase in 2013 net periodic benefit costs is primarily attributable to an increase in the projected benefit obligation from reductions of approximately 55 basis points in the weighted average discount rate used to value the qualified pension obligations at December 31, 2012 compared to December 31, 2011. The larger projected benefit obligation served to increase service cost and interest cost recognized in 2013 compared to 2012. At December 31, 2013, we recognized actuarial gains of $42.8 million, which resulted in a decrease in the amount of actuarial losses being amortized in 2014 compared to 2013. At December 31, 2012, we recognized actuarial losses of $49.3 million, which resulted in an increase in the amount of actuarial losses being amortized in 2013 compared to the prior year. The actuarial gains/losses can be attributed primarily to the change in discount rates and the gains/losses incurred on payment of significant lump sums in each of those years. *See* note (10) "Employee Benefit Plans" to our consolidated financial statements in "Item 8. Financial Statements and Supplementary Data" included elsewhere in this Annual Report for further information on our company-sponsored qualified pension plans.

(4) Increase in 2014 net periodic benefit costs for our post-retirement healthcare plans is primarily attributable to an increase in interest cost resulting from an increase of approximately 78 basis points in the weighted average discount rate used to value the post-retirement healthcare obligations at December 31, 2013 partially offset by a decrease in the amortization of actuarial losses and service cost in 2014 compared to 2013. Increase in 2013 net periodic benefit costs is primarily attributable to an increase in the projected benefit obligation from reductions of approximately 46 basis points in the weighted average discount rate used to value the post-retirement healthcare obligations at December 31, 2012. The larger projected benefit obligation served to increase service cost and interest cost recognized in 2013 when compared to the prior year. At December 31, 2013, we recognized actuarial gains of $78.6 million, which resulted in a decrease in the amount of actuarial losses being amortized in 2014 compared to 2013. At December 31, 2012, we recognized actuarial losses of $42.3 million, which resulted in an increase in the amount of actuarial losses being amortized in 2013 compared to the prior year. The actuarial gains/losses can be attributed primarily to the change in discount rates. *See* note (10) "Employee Benefit Plans" to our consolidated financial statements in "Item 8. Financial Statements and Supplementary Data" included elsewhere in this Annual Report for further information on our post-retirement healthcare plans.

(5) For the years ended December 31, 2014, 2013 and 2012, we recognized $9.2 million, $9.8 million and $7.5 million of bad debt expense, respectively.

(6) For the years ended December 31, 2014, 2013 and 2012, we recognized $1.0 million, $2.2 million and $3.9 million of severance expense, respectively. Since 2012 we have been working to consolidate operational functions and realign our human resources with the changing telecommunications landscape.

(7) Decreases in other expenses is primarily due to contracted services and advertising costs.

Depreciation and Amortization

Depreciation and amortization includes depreciation of our communications network and equipment and amortization of intangible assets. We require significant capital expenditures to maintain, upgrade and enhance our network facilities and operations. We expect to reduce our capital expenditures in the upcoming years, which will likely reduce our depreciation expense. We expect amortization expense to remain consistent throughout the remainder of our intangible assets' useful lives.

For the years ended December 31, 2014, 2013 and 2012, we recognized $209.7 million, $271.3 million and $365.5 million of depreciation expense, respectively. The decrease in depreciation expense for the year ended December 31, 2014 compared to December 31, 2013 and for December 31, 2013 compared to December 31, 2012 was primarily related to certain asset classes becoming fully depreciated during 2013 and the impact of changes to the estimated remaining useful lives implemented in 2013. We recognized $11.1 million, $11.1 million and $11.2 million of amortization expense in the years ended December 31, 2014, 2013 and 2012, respectively.

Reorganization Related Income

Reorganization related income represents income or expense amounts that have been recognized as a direct result of the Chapter 11 Cases, occurring after the Effective Date. We will continue to incur expenses associated with the Chapter 11 Cases until all of the remaining claims have been closed. In addition, income may be recognized to the extent that we favorably settle outstanding claims in the claims reserve established to pay outstanding bankruptcy claims and various other bankruptcy related fees (the "Claims Reserve") or receive other payments related to the Chapter 11 Cases. As of December 31, 2014, the Claims Reserve has a balance of $0.2 million.

Interest Expense

The following table reflects a summary of interest expense recorded during the years ended December 31, 2014, 2013 and 2012, respectively (in millions):

	Years Ended December 31,		
	2014	**2013**	**2012**
Credit Agreement Loans	$ 49.5	$ 44.1	$ —
Notes	26.3	23.0	—
Old Credit Agreement Loans	—	7.7	66.6
Amortization of debt issue costs	1.1	0.9	0.7
Amortization of debt discount	2.9	2.3	—
Other interest expense	0.6	0.7	0.3
Total interest expense	**$ 80.4**	**$ 78.7**	**$ 67.6**

Interest expense increased $1.7 million (2%) in the year ended December 31, 2014 as compared to the year ended December 31, 2013. The increase in interest expense is primarily attributable to the amortization of the debt discount and debt issuance fees related to the Credit Agreement Loans as a result of the Refinancing (as defined hereinafter in "Liquidity and Capital Resources—Debt—February 2013 Refinancing"), partially offset by lower weighted average long-term debt outstanding during 2014 as compared to 2013.

Interest on borrowings under the Old Credit Agreement accrued at an annual rate equal to either LIBOR or the base rate, in each case plus an applicable margin. Generally, the Old Credit Agreement Loans accrued interest at 6.50%. During the year ended December 31, 2012, the Old Credit Agreement Loans had an outstanding weighted average balance of $987.3 million, taking into consideration $43.0 million of principal payments made on our Old Term Loan in 2012, of which $33.0 million exceeded the scheduled payments and was allocated to the final payment due at maturity. During the first half of the first quarter of 2013, the Old Credit Agreement Loans had an outstanding weighted average balance of $952.3 million, taking into consideration $10.5 million of prepayments made during that period.

On February 14, 2013, in connection with the Refinancing, we repaid the entire outstanding balance of the Old Credit Agreement Loans, issued $300.0 million aggregate principal amount of the Notes and entered into the Credit Agreement Loans, which include the $640.0 million Term Loan outstanding and the undrawn $75.0 million Revolving Facility. The Notes accrue interest at a rate of 8.75% per annum. Interest on borrowings under the Credit Agreement Loans accrues at an annual rate equal to either LIBOR or the base rate, in each case plus an applicable margin. Generally, the Term Loan accrued interest at 7.50% during 2014 and for the time period in 2013 after issuance. Regularly scheduled amortization payments of $1.6 million were made on the Term Loan at the end of the second, third and fourth quarters of 2013 and at the end of each quarter of 2014. In addition, the Term Loan was issued at a $19.4 million discount, which is being amortized using the effective interest method. As of December 31, 2014, we were party to interest rate swap agreements; however, since the agreements are not effective until September 30, 2015, they did not have an impact on interest expense in 2013 or 2014.

Interest expense increased $11.1 million (16%) in the year ended December 31, 2013 as compared to the year ended December 31, 2012. The increase in interest expense is primarily attributable to the increase in interest rates and amortization of the debt discount and debt issuance fees related to the Credit Agreement Loans as a result of the Refinancing, partially offset by lower weighted average long-term debt outstanding during 2013 as compared to 2012.

For further information regarding the Credit Agreement Loans and the Notes, *see* "Liquidity and Capital Resources—Debt" herein and note (7) "Long-term Debt" to our consolidated financial statements in "Item 8. Financial Statements and Supplementary Data" included elsewhere in this Annual Report.

Loss on Debt Refinancing

On February 14, 2013, we completed the Refinancing (as defined hereinafter in "Liquidity and Capital Resources—Debt—February 2013 Refinancing") and paid all amounts outstanding under the Old Credit Agreement. In connection with this Refinancing, we incurred $5.6 million in related fees and wrote off $1.2 million of debt issue costs and other prepayments related to the Old Credit Agreement.

Other Income

Other income generally includes non-operating gains and losses. During the years ended December 31, 2014, 2013 and 2012, net other income was $7.5 million, $4.9 million and $0.7 million, respectively. 2013 included a one-time settlement of $3.3 million.

On the Effective Date, as required by the Plan, the FairPoint Litigation Trust (the "Trust") was created and the Company transferred to the Trust the "Litigation Trust Claims", as defined in the FairPoint Litigation Trust Agreement among the Company, its subsidiaries and the trustee. The Trust thereafter settled the "Litigation Trust Claims" against Verizon Communications Inc. During 2014, we received payment from the settlement proceeds and recorded one-time, non-operating income of $6.7 million.

Income Taxes

The Company recorded a tax benefit on the loss from continuing operations for the years ended December 31, 2014, 2013 and 2012 of $29.8 million, $90.3 million and $95.6 million, respectively, which equates to an effective tax rate of 17.9%, 46.6% and 38.4%, respectively. For 2014, the effective tax rate differs from the 35% federal statutory rate primarily due to an increase in the valuation allowance offset by a tax benefit related to state taxes. For 2013, the effective tax rate differs from the statutory rate primarily due to state taxes, as well as a decrease to the valuation allowance. For 2012, the effective tax rate differs from the statutory rate primarily due to state taxes, as well as favorable provision to return permanent adjustments, partially offset by an increase to the valuation allowance for deferred tax assets.

Gain on Sale of Discontinued Operations, Net of Tax

On January 31, 2013, we completed the sale of our capital stock in our Idaho-based operations to Blackfoot Telecommunications Group for $30.5 million in gross cash proceeds. The operating results of these Idaho-based operations were immaterial and, accordingly, were not segregated as discontinued operations for reporting purposes. A gain, before $6.7 million of income taxes, of $16.7 million was recorded upon the closing of the transaction, which is reported within discontinued operations in the consolidated statement of operations for the year ended December 31, 2013.

For details of our Idaho-based operations' operating results, *see* note (17) "Assets Held for Sale and Discontinued Operations" to our consolidated financial statements in "Item 8. Financial Statements and Supplementary Data" included elsewhere in this Annual Report.

Non-GAAP Financial Measures

We report our financial results in accordance with accounting principles generally accepted in the United States ("GAAP"). The table below includes certain non-GAAP financial measures and the adjustments to the most directly comparable GAAP measure used to determine the non-GAAP measures. Management believes that the non-GAAP measures, which exclude the effect of special items, may be useful to investors in understanding period-to-period operating performance and in identifying historical and prospective trends that may not otherwise be apparent when relying solely on GAAP financial measures. In addition, management believes the non-GAAP measures are useful for investors because they enable them to view performance in a manner similar to the method used by the Company's management. Management believes earnings before interest, taxes, depreciation and amortization ("EBITDA"), as adjusted to exclude the effect of special items, provides a useful measure of covenant compliance and Unlevered Free Cash Flow may be useful to investors in assessing the Company's ability to generate cash and meet its debt service requirements. The maintenance covenants contained in the Company's credit facility are based on Consolidated EBITDA, which is consistent with the calculation of Adjusted EBITDA below.

For purposes of calculating Adjusted EBITDA (in accordance with the definition of Consolidated EBITDA in our Credit Agreement), costs, expenses and charges related to the renegotiation of labor contracts including, but not limited to, expenses for third-party vendors and losses related to disruption of operations (including any associated penalties under service level agreements and regulatory performance plans) are permitted to be excluded from the calculation. We believe this includes, among others, the costs paid to third-parties for the contingent workforce and service quality penalties due to the disruption of operations. On October 17, 2014, two of our labor unions in northern New England initiated a work stoppage. As a result, significant union employee and vehicle and other related expenses related to northern New England were not incurred between October 17, 2014 and December 31, 2014 (the "work stoppage period"). Therefore, to assist in the evaluation of the Company's operating performance without the impact of the work stoppage, we estimated the union employee and vehicle and other related expenses using historical data for the work stoppage period that we believe would have been incurred absent the work stoppage ("Estimated Avoided Costs"). Estimated Avoided Costs is a pro forma estimate only. Actual costs absent the strike may have been different. In the fourth quarter of 2014, had our incumbent workforce been in place, actual labor costs may have been higher than the $33 million recorded as Estimated Avoided Costs due to significant winter storm activity that increased our service demands; however, those incremental storm-related costs would have been an allowed add back to Adjusted EBITDA under the Credit Agreement. Estimated employee expenses avoided during the work stoppage period include salaries and wages, bonus, overtime, capitalized labor, benefits, payroll taxes, travel expenses and other employee related costs based on a trailing 12-month average calculated per striking employee per day during the work stoppage period less any actual expense incurred. Estimated vehicle fuel and maintenance expense savings, which resulted from the contingent workforce utilizing their own vehicles, for the work stoppage period were estimated based on a trailing 12-month average of historical costs less actual expense incurred. Management believes "Adjusted EBITDA minus Estimated Avoided Costs" and "Unlevered Free Cash Flow minus Estimated Avoided Costs" may be useful to investors in understanding our operating performance without the impact of the two unions' work stoppage in northern New England as described elsewhere in this Annual Report.

However, the non-GAAP financial measures, as used herein, are not necessarily comparable to similarly titled measures of other companies. Furthermore, these non-GAAP measures have limitations as analytical tools and should not be considered in isolation from, or as an alternative to, net income or loss, operating income, cash flow or other combined income or cash flow data prepared in accordance with GAAP. Because of these limitations, Adjusted EBITDA, Adjusted EBITDA minus Estimated Avoided Costs, Unlevered Free Cash Flow, Unlevered Free Cash Flow minus Estimated Avoided Costs and related ratios should not be considered as measures of discretionary cash available to invest in business growth or reduce indebtedness. The Company compensates for these limitations by relying primarily on its GAAP results and using the non-GAAP measures only supplementally.

A reconciliation of Adjusted EBITDA, Adjusted EBITDA minus Estimated Avoided Costs, Unlevered Free Cash Flow and Unlevered Free Cash Flow minus Estimated Avoided Costs to net loss is provided in the table below (in thousands):

	Years Ended December 31,		
	2014	2013	2012
Net loss	$ (136,319)	$ (93,450)	$ (153,294)
Income tax benefit	(29,778)	(90,291)	(95,560)
Interest expense	80,371	78,675	67,610
Depreciation and amortization	220,678	282,438	376,614
Pension expense (1a)	18,144	26,221	17,809
Post-retirement healthcare expense (1a)	57,138	54,469	50,875
Compensated absences (1b)	2,848	431	329
Severance	2,005	8,150	6,380
Reorganization costs (1c)	104	207	1,335
Storm expenses (1d)	145	2,598	3,000
Other non-cash items, net (1e)	2,537	1,902	3,518
Gain on sale of discontinued operations	—	(10,757)	—
Loss on debt refinancing	—	6,787	—
Labor negotiation related expense (1f)	73,590	648	—
All other allowed adjustments, net (1f)	(889)	(2,998)	(675)
Adjusted EBITDA (1) (3)	290,574	265,030	277,941
Estimated Avoided Costs (2)	(33,000)	—	—
Adjusted EBITDA minus Estimated Avoided Costs (2) (3)	**$ 257,574**	**$ 265,030**	**$ 277,941**
Adjusted EBITDA (1) (3)	$ 290,574	$ 265,030	$ 277,941
Pension contributions	(28,266)	(19,971)	(17,850)
Post-retirement healthcare payments	(5,808)	(3,470)	(3,183)
Capital expenditures	(119,489)	(128,298)	(145,066)
Unlevered Free Cash Flow (3)	137,011	113,291	111,842
Estimated Avoided Costs (2)	(33,000)	—	—
Unlevered Free Cash Flow minus Estimated Avoided Costs (2) (3)	**$ 104,011**	**$ 113,291**	**$ 111,842**

(1) For purposes of calculating Adjusted EBITDA (in accordance with the definition of Consolidated EBITDA in the Company's Credit Agreement), the Company adjusts net (loss) income for interest, income taxes, depreciation and amortization, in addition to:

a) the add-back of aggregate pension and post-retirement healthcare expense,

b) the add-back (or subtraction) of the adjustment to the compensated absences accrual to eliminate the impact of changes in the accrual,

c) the add-back of costs related to the reorganization, including professional fees for advisors and consultants,

d) the add-back of costs and expenses, including those imposed by regulatory authorities, with respect to casualty events, acts of God or force majeure to the extent they are not reimbursed from proceeds of insurance,

e) the add-back of other non-cash items, except to the extent they will require a cash payment in a future period, including impairment charges, and

f) the add-back (or subtraction) of other items, including facility and office closures, labor negotiation related expenses, non-cash gains/losses, and non-operating dividend and interest income and other extraordinary gains/losses.

(2) See paragraphs preceding the table above for information regarding the calculation.

(3) On October 16, 2014, we received payment from the Trust settlement proceeds and recorded one-time, non-operating income of $6.7 million, which is included in the calculation of Adjusted EBITDA. For further information regarding this payment, see "Results of Operations—Other Income" included herein.

Liquidity and Capital Resources

Overview

Our current and future liquidity is dependent upon our operating results. We expect that our primary sources of liquidity will be cash flow from operations, cash on hand and funds available under the Revolving Facility. Our short-term and long-term liquidity needs arise primarily from:

(i) interest and principal payments on our indebtedness;

(ii) capital expenditures;

(iii) working capital requirements as may be needed to support and grow our business, including payments to contractors used during the work stoppage in northern New England; and

(iv) contributions to our qualified pension plan and payments under our post-retirement healthcare plans.

Based on our current and anticipated levels of operations and conditions in our markets, we believe that cash on hand, the Revolving Facility and cash flow from operations will enable us to meet our working capital, capital expenditure, debt service and other funding requirements for at least the next 12 months. We were in compliance with the maintenance covenants contained in the Credit Agreement through the end of 2014 and expect to remain in compliance for 2015.

Cash Flows

Cash and cash equivalents at December 31, 2014 totaled $37.6 million compared to $42.7 million at December 31, 2013, excluding restricted cash of $0.6 million and $1.2 million, respectively. During 2014, cash flows from operations of $121.1 million, which included outflows due to the scheduled semi-annual interest payments on the Notes and the payment of 2013 annual performance bonuses, were partially offset by cash outflows largely associated with $119.5 million of capital expenditures. During 2013, cash inflows were primarily associated with cash flow from operations of $171.1 million and proceeds from the sale of our Idaho-based operations of $30.5 million partially offset by the Refinancing (as defined in "Debt—February 2013 Refinancing" below) and $128.3 million of capital expenditures.

The following table sets forth our consolidated cash flow results reflected in our consolidated statements of cash flows (in millions):

	Years Ended December 31,		
Net cash flows provided by (used in):	**2014**	**2013**	**2012**
Operating activities	$ 121.1	$ 171.1	$ 192.8
Investing activities	(118.4)	(96.0)	(144.3)
Financing activities	(7.8)	(55.6)	(42.6)
Net increase (decrease) in cash	**$ (5.1)**	**$ 19.5**	**$ 5.9**

Operating activities. Net cash provided by operating activities is our primary source of funds. Net cash provided by operating activities for 2014 decreased $50.0 million compared to 2013, primarily due to a reduction in revenues, increased outflows for interest due to the timing of semi-annual payments on the Notes (as defined in "Debt—February 2013 Refinancing" below) in 2014 compared to 2013, as well as the full-year impact of higher interest rates resulting from financing, increased cash pension contributions and labor negotiation related expenses in 2014 compared to 2013.

Net cash provided by operating activities for 2013 decreased by $21.7 million compared to 2012, primarily because reduced revenue and related collections were not sufficiently offset by lower expenses. Net cash provided by operating activities for 2012 includes payment of $8.8 million in claims of the Predecessor Company, of which $3.8 million of these claims were paid using funds from the reserve for payment of outstanding bankruptcy claims (the "Cash Claims Reserve") established on the Effective Date. Accordingly, $5.0 million of cash on hand was used to pay claims of the Predecessor Company during 2012. During 2013, only $0.2 million of cash on hand was used to pay claims. During 2013 and 2012, $0.6 million and $10.8 million of the Cash Claims Reserve was reclaimed by the Company as a source of cash on hand, respectively.

Investing activities. Net cash used in investing activities for 2014 increased $22.4 million compared to 2013. In 2013, cash outflows in capital expenditures were partially offset by the sale of our Idaho-based operations during 2013 for $30.5 million in cash proceeds. Capital expenditures were $119.5 million, $128.3 million and $145.1 million for the years ended December 31, 2014, 2013 and 2012, respectively.

Financing activities. Net cash used in financing activities for 2014 decreased $47.8 million compared to 2013. This decrease is largely due to the Refinancing (as defined hereinafter in "Liquidity and Capital Resources—Debt—February 2013 Refinancing") during 2013. 2013 increased $13.0 million compared to 2012, primarily due to the Refinancing.

Pension Contributions and Post-Retirement Healthcare Plan Expenditures

During the year ended December 31, 2014, we contributed $30.0 million to our Company sponsored qualified defined benefit pension plans and funded benefit payments of $6.1 million under our post-retirement healthcare plans. Contributions to our qualified defined benefit pension plans in 2014 exceeded the minimum funding requirements under the Pension Protection Act of 2006.

On August 8, 2014, the Highway and Transportation Funding Act was signed into law. This act contained a pension funding stabilization provision which allows pension plan sponsors to use higher discount rate assumptions when determining the funded status and, accordingly, the funding obligations for its pension plans.

The provisions of the Act will result in our 2015 minimum required pension plan contribution being lower than it would have been in the absence of this stabilization provision. We believe that the intent of the stabilization provision is to alter the timing of pension plan contributions, not to reduce the long-term funding of pension plans. Accordingly, the relief we will receive as a result of the stabilization provision may be temporary in nature in that our near-term minimum required contributions will be less than they otherwise would have been without the passage of this Act and will increase in the medium to long-term.

In 2015, we expect our aggregate cash pension contributions and cash post-retirement healthcare payments to be approximately $20 million. *See* "Item 1A. Risk Factors—The amount we are required to contribute to our qualified pension plans and post-retirement healthcare plans is impacted by several factors that are beyond our control and changes in those factors may result in a significant increase in future cash contributions."

Capital Expenditures

We require significant capital expenditures to maintain, upgrade and enhance our network facilities and operations. In 2014, our net capital expenditures totaled $119.5 million, compared to $128.3 million in 2013. We anticipate that we will fund future capital expenditures through cash flows from operations and cash on hand (including amounts available under the Revolving Facility). In 2015, capital expenditures are expected to be lower than in 2014.

Debt

February 2013 Refinancing

On February 14, 2013 (the "Refinancing Closing Date"), we completed the refinancing of the Old Credit Agreement Loans (the "Refinancing"). In connection with the Refinancing, we (i) issued $300.0 million aggregate principal amount of 8.75% senior secured notes due in 2019 (the "Notes") in a private offering exempt from registration under the Securities Act pursuant to an indenture that we entered into on the Refinancing Closing Date (the "Indenture") and (ii) entered into a new credit agreement (the "Credit Agreement"), dated as of the Refinancing Closing Date. The Credit Agreement provides for a $75.0 million revolving credit facility, including a sub-facility for the issuance of up to $40.0 million in letters of credit (the "Revolving Facility"), and a $640.0 million term loan facility (the "Term Loan" and, together with the Revolving Facility, the " Credit Agreement Loans"). On the Refinancing Closing Date, we used the proceeds of the Notes offering, together with $640.0 million of borrowings under the Term Loan and cash on hand to (i) repay principal of $946.5 million outstanding on the Old Term Loan, plus approximately $7.7 million of accrued interest and (ii) pay approximately $32.6 million of fees, expenses and other costs related to the Refinancing.

The Credit Agreement. In connection with the Refinancing, we entered into the Credit Agreement, which provides for the $75.0 million Revolving Facility, including a sub-facility for the issuance of up to $40.0 million in letters of credit, and the $640.0 million Term Loan. The Credit Agreement Loans replaced the Old Credit Agreement Loans, which were terminated on the Refinancing Closing Date. The principal amount of the Term Loan and commitments under the Revolving Facility may be increased by an aggregate amount up to $200.0 million, subject to certain terms and conditions specified in the Credit Agreement. The Term Loan will mature on February 14, 2019 and the Revolving Facility will mature on February 14, 2018, subject in each case to extensions pursuant to the terms of the Credit Agreement. As of December 31, 2014, the Company had $58.8 million, net of $16.2 million of outstanding letters of credit, available for borrowing under the Revolving Facility.

Interest Rates and Fees. Interest on borrowings under the Credit Agreement Loans accrue at an annual rate equal to either LIBOR or the base rate, in each case plus an applicable margin. LIBOR is the per annum rate for an interest period of one, two, three or six months (at our election), with a minimum LIBOR floor of 1.25% for the Term Loan. The base rate for any date is the per annum rate equal to the greatest of (x) the federal funds effective rate plus 0.50%, (y) the rate of interest publicly quoted from time to time by The Wall Street Journal as the United States "Prime Rate" and (z) LIBOR with an interest period of one month plus 1.00%. The applicable margin for the Term Loan is (a) 6.25% per annum with respect to term loans bearing interest based on LIBOR or (b) 5.25% per annum with respect to term loans bearing interest based on the base rate. The applicable rate for the Revolving Facility is, initially, (a) 5.50% with respect to revolving loans bearing interest based on LIBOR or (b) 4.50% per annum with respect to revolving loans bearing interest based on the base rate, in each case subject to adjustment based on our consolidated total leverage ratio, as defined in the Credit Agreement. We are required to pay a quarterly letter of credit fee on the average daily amount available to be drawn under letters of credit issued under the Revolving Facility equal to the applicable rate for revolving loans bearing interest based on LIBOR plus a fronting fee of 0.125% per annum on the average daily amount available to be drawn under such letters of credit. In addition, we are required to pay a quarterly commitment fee on the average daily unused portion of the Revolving Facility, which is 0.50% initially, subject to reduction to 0.375% based on our consolidated total leverage ratio. In the third quarter of 2013, we entered into interest rate swap agreements with a combined notional amount of $170.0 million with three counterparties that are effective for a two year period beginning on September 30, 2015 and maturing on September 30, 2017. Each respective swap agreement requires us to pay a fixed rate of 2.665% and provides that we will receive a variable rate based on the three month LIBOR rate, subject to a minimum LIBOR floor of 1.25%. Amounts payable by or due to us will be net settled with the respective counterparties on the last business day of each fiscal quarter, commencing December 31, 2015. For further information regarding these agreements, see note (8) "Interest Rate Swap Agreements" to our consolidated financial statements in “Item 8. Financial Statements and Supplementary Data” included elsewhere in this Annual Report.

Security/Guarantors. All obligations under the Credit Agreement, together with certain designated hedging obligations and cash management obligations, are unconditionally guaranteed on a senior secured basis by each of the Subsidiary Guarantors and secured by a first-priority lien on substantially all personal property of FairPoint Communications and the Subsidiary Guarantors, subject to certain exclusions set forth in the related security documents, pari passu with the lien securing the obligations under the Notes.

Mandatory Repayments. We are required to make quarterly repayments of the Term Loan in a principal amount equal to $1.6 million during the term of the Credit Agreement, with such repayments being reduced based on the application of mandatory and optional prepayments of the Term Loan made from time to time. In addition, mandatory repayments are due under the Credit Agreement with (i) a percentage, initially equal to 50% and subject to reduction to 25% in subsequent fiscal years based on our consolidated total leverage ratio, of our excess cash flow, as defined in the Credit Agreement, (ii) the net cash proceeds of certain asset dispositions, insurance proceeds and condemnation awards and (iii) issuances of debt not permitted to be incurred under the Credit Agreement. Optional prepayments and mandatory prepayments resulting from the incurrence of debt not permitted to be incurred under the Credit Agreement are required to be made at (i) 102.0% of the aggregate principal amount prepaid if such prepayment is made on or prior to February 14, 2015 and (ii) 101.0% of the aggregate principal amount prepaid if such prepayment is made prior to February 14, 2016. No premium is required to be paid for prepayments made after February 14, 2016. We did not make any optional or mandatory prepayments under the Credit Agreement, excluding mandatory quarterly repayments discussed above, during the years ended December 31, 2014 and 2013. In addition, we will not be required to make an excess cash flow payment for fiscal year 2014.

Covenants. The Credit Agreement contains customary representations and warranties and affirmative and negative covenants for a transaction of this type, including two financial maintenance covenants: (i) a consolidated interest coverage ratio and (ii) a consolidated total leverage ratio. The Credit Agreement also contains a covenant limiting the maximum amount of capital expenditures that we and our subsidiaries may make in any fiscal year.

Events of Default. The Credit Agreement also contains customary events of default for a transaction of this type.

The Notes. On the Refinancing Closing Date, we issued $300.0 million in aggregate principal amount of the Notes pursuant to the Indenture in a private offering exempt from registration under the Securities Act.

The terms of the Notes are governed by the Indenture. The Notes are senior secured obligations of FairPoint Communications and are guaranteed by the Subsidiary Guarantors. The Notes and the guarantees thereof are secured by a first-priority lien on substantially all personal property of FairPoint Communications and the Subsidiary Guarantors, subject to certain exclusions set forth in the related security documents, pari passu with the lien securing the obligations under the Credit Agreement. The Notes will mature on August 15, 2019 and accrue interest at a rate of 8.75% per annum, which is payable semi-annually in arrears on February 15 and August 15 of each year.

On or after February 15, 2016, we may redeem all or part of the Notes at the redemption prices set forth in the Indenture, plus accrued and unpaid interest thereon, to the applicable redemption date. At any time prior to February 15, 2016, we may redeem all or part of the Notes at a redemption price equal to 100% of the principal amount of the Notes redeemed, plus a "make-whole" premium as of, and accrued and unpaid interest to, the applicable redemption date. In addition, at any time prior to February 15, 2016, we may, on one or more occasions, redeem up to 35% of the original aggregate principal amount of the Notes, using net cash proceeds of certain qualified equity offerings, at a redemption price of 108.75% of the principal amount of Notes redeemed, plus accrued and unpaid interest to the applicable redemption date.

The holders of the Notes have the ability to require us to repurchase all or any part of the Notes if we experience certain kinds of changes in control or engage in certain asset sales, in each case at the repurchase prices and subject to the terms and conditions set forth in the Indenture.

The Indenture contains certain covenants which are customary with respect to non-investment grade debt securities, including limitations on our ability to incur additional indebtedness, pay dividends on or make other distributions or repurchase our capital stock, make certain investments, enter into certain types of transactions with affiliates, create liens and sell certain assets or merge with or into other companies. These covenants are subject to a number of important limitations and exceptions.

The Indenture also provides for customary events of default, including cross defaults to other specified debt of FairPoint Communications and certain of its subsidiaries.

The Old Credit Agreement. On January 24, 2011, the Old Credit Agreement Borrowers entered into the Old Credit Agreement. The Old Credit Agreement was comprised of the Old Revolving Facility, which had a sub-facility providing for the issuance of up to $30.0 million of letters of credit, and the Old Term Loan. The entire outstanding principal amount of the Old Credit Agreement Loans was due and payable five years after January 24, 2011, subject to certain conditions. On February 14, 2013, we entered into the Credit Agreement and repaid all outstanding amounts under the Old Credit Agreement, which was subsequently terminated. In addition, the following agreements relating to the Old Credit Agreement Loans were terminated on the Refinancing Closing Date: (i) the Security Agreement, dated as of January 24, 2011, among FairPoint Communications, the subsidiaries of FairPoint Communications party thereto and Bank of America, N.A., as administrative agent, (ii) the Pledge Agreement, dated as of January 24, 2011, made by FairPoint Communications and the subsidiaries of FairPoint Communications party thereto in favor of Bank of America, N.A., as administrative agent, and (iii) the Continuing Guaranty, dated as of January 24, 2011, made by the subsidiaries of FairPoint Communications party thereto in favor of Bank of America, N.A., as administrative agent.

Merger Orders. As a condition to the approval of the Merger and related transactions by state regulatory authorities we agreed to make certain capital expenditures following the completion of the Merger, which were modified by regulatory settlements agreed to with representatives for each of Maine, New Hampshire and Vermont and approved by the applicable regulatory authorities in Maine, New Hampshire and Vermont and approved by the Bankruptcy Court as part of the Plan. For further information on these capital expenditure requirements, *see* "Item 1. Business—Regulatory Environment—State Regulation—Regulatory Conditions to the Merger, as Modified in Connection with the Plan" included elsewhere in this Annual Report.

Off-Balance Sheet Arrangements

As of December 31, 2014 and December 31, 2013 we had $16.2 million and $15.9 million, respectively, in outstanding letters of credit under the Revolving Facility and $2.8 million and $1.8 million, respectively, of surety bonds. We do not have any other off-balance sheet arrangements other than our operating lease obligations, which are not reflected on our balance sheet. See "—Summary of Contractual Obligations" for further detail.

Summary of Contractual Obligations

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

The following table discloses aggregate information about our contractual obligations as of December 31, 2014 and the periods in which payments are due (in thousands):

	Payments due by period				
Contractual Obligations	**Total**	**Less than 1 year**	**1-3 years**	**3-5 years**	**More than 5 years**
Long-term debt obligations, including current maturities [(a)]	$ 928,800	$ 6,400	$ 12,800	$ 909,600	$ —
Interest payments on long-term debt obligations [(b)]	321,107	75,585	223,461	22,061	—
Capital lease obligations, including current maturities	1,909	700	980	229	—
Operating lease obligations	21,081	7,484	9,750	3,145	702
Other long-term liabilities [(c)]	1,008,859	23,572	36,340	28,023	920,924
Total contractual obligations	**$ 2,281,756**	**$ 113,741**	**$ 283,331**	**$ 963,058**	**$ 921,626**

(a) Long-term debt obligations exclude outstanding letters of credit totaling $16.2 million under the Revolving Facility at December 31, 2014. For more information, *see* note (7) "Long-term Debt" to our consolidated financial statements in "Item 8. Financial Statements and Supplementary Data" included elsewhere in this Annual Report.

(b) Interest payments represent cash payments on the long-term debt, including payments associated with interest rate swaps, while excluding amortization of capitalized debt issuance costs.

(c) Other long-term liabilities primarily include our qualified pension and post-retirement healthcare obligations, and deferred tax liabilities. For more information, *see* notes (10) "Employee Benefit Plans" and (11) "Income Taxes" to our consolidated financial statements in "Item 8. Financial Statements and Supplementary Data" included elsewhere in this Annual Report. In addition,

(i) The balance excludes $3.8 million of reserves for uncertain tax positions, including interest and penalties, that were included in deferred tax liabilities at December 31, 2014 for which we are unable to make a reasonably reliable estimate as to when cash settlements with taxing authorities will occur;

(ii) The balance includes the current portion of our post-retirement healthcare obligations of $6.0 million presented in the current portion of other accrued liabilities at December 31, 2014; and

(iii) Our 2015 pension contribution is expected to be approximately $16 million and has been reflected as due in less than one year. Our actual contribution could differ from this estimation. Due to uncertainties in the pension funding calculation, the amount and timing of any other pension contributions are unknown and therefore the remaining accrued pension obligation has been reflected as due in more than 5 years.

Critical Accounting Policies and Estimates

As disclosed in note (2) "Significant Accounting Policies" to our consolidated financial statements in "Item 8. Financial Statements and Supplementary Data" included elsewhere in this Annual Report, the preparation of our financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions about future events that affect the amounts reported in our consolidated financial statements and accompanying notes. Actual results could differ significantly from those estimates. We believe that the following discussion addresses our most critical accounting policies, which are those that are most important to the portrayal of our financial condition and results of operations and require management's most difficult, subjective and complex judgments. Our critical accounting policies as of December 31, 2014 are as follows:

- Revenue recognition;
- Allowance for doubtful accounts;
- Accounting for qualified pension and other post-retirement healthcare benefits;
- Accounting for income taxes;
- Depreciation of property, plant and equipment;
- Stock-based compensation; and

- Valuation of long-lived assets and indefinite-lived intangible assets.

Revenue Recognition. We recognize service revenues based upon usage of our local exchange network and facilities and contract fees. Fixed fees for voice services, Internet services and certain other services are recognized in the month the service is provided. Revenue from other services that are not fixed fee or that exceed contracted amounts is recognized when those services are provided. Non-recurring customer activation fees, along with the related costs up to, but not exceeding, the activation fees, are deferred and amortized over the customer relationship period. SQI penalties and certain PAP penalties are recorded as a reduction to revenue.

We recognize certain revenues pursuant to various cost recovery programs from state and federal USF, CAF/ICC and from revenue sharing agreements with other LECs administered by the National Exchange Carrier Association ("NECA"). Revenues are calculated based on our investment in our network and other network operations and support costs. We have historically collected revenues recognized through this program; however, adjustments to estimated revenues in future periods are possible. These adjustments could be necessitated by adverse regulatory developments with respect to these subsidies and revenue sharing arrangements, changes in the allowable rates of return, the determination of recoverable costs and/or decreases in the availability of funds in the programs due to increased participation by other carriers.

We make estimated adjustments, as necessary, to revenue and accounts receivable for billing errors, including certain disputed amounts. If circumstances related to these adjustments change or our knowledge evolves, our estimate of the recoverability of our accounts receivable could be further reduced from the levels provided in our consolidated financial statements.

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

Accounting for Qualified Pension and Other Post-retirement Healthcare Benefits. Certain of our employees participate in our qualified pension plans and other post-retirement healthcare plans. In the aggregate, the projected benefit obligations of the qualified pension plans exceed the fair value of their respective assets and the post-retirement healthcare plans do not have plan assets, resulting in expense. Significant qualified pension and other post-retirement healthcare plan assumptions, including the discount rate used, the long-term rate-of-return on plan assets, and medical cost trend rates are periodically updated and impact the amount of benefit plan income, expense, assets and obligations reflected in our consolidated financial statements. The actuarial assumptions we used in determining our qualified pension and post-retirement healthcare plans obligations may differ materially from actual results due to changing market and economic conditions, higher or lower withdrawal rates or longer or shorter life spans of participants. While we believe that the assumptions used are appropriate, differences in actual experience or changes in assumptions might materially affect our financial position or results of operations.

Our qualified pension and post-retirement liabilities are highly sensitive to changes in the discount rate. We currently estimate that a movement of 1% in the discount rate would change our December 31, 2014 qualified pension plan benefit obligations by approximately 19%. We currently estimate that a 1% fluctuation in the discount rate would change our December 31, 2014 post-retirement healthcare benefit obligations by approximately 22%.

The post-retirement healthcare benefit obligations are also highly sensitive to the medical trend rate assumption. A 1% increase in the medical trend rate assumed for post-retirement healthcare benefits at December 31, 2014 would result in an increase in the post-retirement healthcare benefit obligations of approximately $182.1 million and a 1% decrease in the medical trend rate assumed at December 31, 2014 would result in a decrease in the post-retirement healthcare benefit obligations of approximately $138.0 million.

For additional information on our qualified pension and post-retirement healthcare plans, *see* note (10) "Employee Benefit Plans" to our consolidated financial statements in "Item 8. Financial Statements and Supplementary Data" included elsewhere in this Annual Report.

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

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

FairPoint Communications files a consolidated income tax return with its subsidiaries. All intercompany transactions and accounts have been eliminated in consolidation.

Depreciation of Property, Plant and Equipment. We recognize depreciation on property, plant and equipment principally on the composite group remaining life method and straight-line composite rates. This method provides for the recognition of the cost of the remaining net investment in telephone plant, less anticipated net salvage value (if any), over the remaining asset lives. When an asset is retired, the original cost, net of salvage value, is charged against accumulated depreciation and no immediate gain or loss is recognized on the disposition of the asset. Under this method, we review depreciable lives periodically and may revise depreciation rates when appropriate. The Company utilizes straight-line depreciation for its non-telephone property, plant and equipment.

Periodically, the Company reviews the estimated remaining useful lives of its group asset categories to address continuing changes in technology, competition and the Company’s overall reduction in capital spending and increased focus on more efficient utilization of its existing assets.

Stock-based Compensation. Compensation expense for share-based awards made to employees and directors are recognized based on the estimated fair value of each award over the award's vesting period. We estimate the fair value of share-based payment awards on the date of grant using either an option-pricing model for stock options or the closing market value of our stock for restricted stock and expense the value of the portion of the award that is ultimately expected to vest over the requisite service period in the statement of operations.

We utilize the Black-Scholes option pricing model to calculate the fair value of our stock option grants. The key assumptions used in the Black-Scholes option pricing model are the expected life of the stock option, the expected dividend rate, the risk-free interest rate and expected volatility. The expected life of the stock options granted represents the period of time that the options are expected to be outstanding. The risk-free interest rates are based on United States Treasury yields in effect at the date of grant consistent with the expected life. The expected volatility reflects the historical volatility. Our assumptions of these key inputs, in addition to our assumption made about the portion of the awards that will ultimately vest, requires subjective judgment.

For additional information on share-based awards, including key assumptions used in calculating the grant date fair values, *see* note (15) "Stock-Based Compensation" to our consolidated financial statements in "Item 8. Financial Statements and Supplementary Data" included elsewhere in this Annual Report.

Valuation of Long-lived Assets and Indefinite-lived Intangible Assets. We review our long-lived assets, which include our amortizable intangible assets, for impairment whenever events or changes in circumstances indicate that the carrying value may not be recoverable. In addition, we review non-amortizable intangible assets for impairment on at least an annual basis as of the first day of the fourth quarter of each year, or more frequently whenever indicators of impairment exist. Indicators of impairment could include, but are not limited to:

- an inability to perform at levels that were forecasted;
- a decline in planned revenues;
- a permanent decline in market capitalization;
- implementation of restructuring plans;
- changes in industry trends; and/or
- unfavorable changes in our capital structure, cost of debt, interest rates or capital expenditures levels.

Our only non-amortizable intangible asset is the FairPoint trade name. An annual quantitative impairment analysis was performed on October 1, 2014. We assess the fair value of our trade name utilizing the relief from royalty method. If the carrying amount of our trade name exceeds its estimated fair value, the asset is considered impaired. For this annual impairment review, we made certain assumptions including an estimated royalty rate, long-term growth rate, effective tax rate and discount rate and applied these assumptions to projected future cash flows, exclusive of cash flows associated with wholesale and other revenues not generated through brand recognition. As of October 1, 2014, the estimated fair value exceeded the carrying value; therefore, an impairment was not necessary. We performed another quantitative analysis as of December 31, 2014 and the estimated fair value exceeded the carrying value by approximately 4%; therefore, an impairment was not necessary. However, future changes in one or more of our assumptions discussed above may result in the recognition of an impairment loss. For example, an increase in the discount rate of 41 basis points could result in an impairment loss.

For additional information on our FairPoint trade name, *see* note (5) "Other Intangible Assets" to our consolidated financial statements in "Item 8. Financial Statements and Supplementary Data" included elsewhere in this Annual Report.

New Accounting Standards

For details of recent Accounting Standards Updates and our evaluation of their adoption on our consolidated financial statements, *see* note (3) "Recent Accounting Pronouncements" to our consolidated financial statements in "Item 8. Financial Statements and Supplementary Data" included elsewhere in this Annual Report.

Inflation

There are cost of living adjustment clauses in certain of the collective bargaining agreements covering our labor union employees. Considerable fluctuations in cost of living due to inflation could result in an adverse effect on our operations.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We are exposed to market risk in the normal course of our business operations due to ongoing investing and funding activities, including those associated with the variable interest rate in our Credit Agreement and our qualified pension plan assets. Market risk refers to the potential change in fair value of a financial instrument as a result of fluctuations in interest rates, fixed income securities and equity prices. We do not hold or issue derivative instruments, derivative commodity instruments or other financial instruments for trading or speculative purposes. Our primary market risk exposures are interest rate risk and investment risk as follows:

Interest Rate Risk - Long-Term Debt. We are exposed to interest rate risk, primarily as it relates to the variable interest rates we are charged under credit agreements to which we are a party. As of December 31, 2014, our interest rate risk exposure was attributable to the Credit Agreement, which includes the Term Loan and the Revolving Facility, each of which is subject to variable interest rates. We use our variable rate debt, in addition to fixed rate debt, to finance our operations and capital expenditures and believe it is prudent to limit the variability of our interest payments on our variable rate debt. To meet this objective, from time to time, we may enter into interest rate derivative agreements to manage fluctuations in cash flows resulting from interest rate risk.

As of December 31, 2014, we were party to interest rate swap agreements in connection with borrowings under the Credit Agreement covering a combined notional amount of $170.0 million. However, these agreements are not effective until September 30, 2015. Accordingly, on December 31, 2014, the entire $628.8 million principal balance of the Term Loan was subject to interest rate risk. Interest payments on the Term Loan are subject to a LIBOR floor of 1.25%. As a result, while LIBOR remains below 1.25%, we incur interest at above market rates. To the extent that LIBOR remains below 1.25%, we are buffered from the full financial impact of interest rate risk; however, as LIBOR rises, a change in interest rates could materially affect our consolidated financial statements. For example, with the principal balance of the Term Loan as of December 31, 2014, a 1% increase in the interest rate above the LIBOR floor of 1.25% would unfavorably impact interest expense and pre-tax earnings by approximately $6.3 million on an annual basis.

For further information regarding the Credit Agreement, *see* "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources," and note (7) "Long-Term Debt" and note (8) "Interest Rate Swap Agreements" to our consolidated financial statements in "Item 8. Financial Statements and Supplementary Data" included elsewhere in this Annual Report.

Interest Rate and Investment Risk - Pension Plans. We are exposed to risks related to the fair value of our pension plan assets and the discount rate used to value our pension plan liabilities and the amount of lump-sum payments made to participants. Our pension plan assets consist of a portfolio of fixed income securities, equity securities and cash. Changes in the fair value of this portfolio can occur due to changes in interest rates and the general economy. In addition, interest rates are a primary factor in the determination of our actuarially determined liability and the amount of the accrued benefit paid in the form of a lump-sum to a pension plan retiree when requested. Our qualified pension plan assets have historically funded a large portion of the benefits paid under our qualified pension plans. Payment of significant lump sum payments, lower returns on plan assets, decrease in the fair value of plan assets and lower discount rates could negatively impact the funded status of the plan and we may be required to make larger contributions to the pension plan than currently anticipated. Due to uncertainties in the pension funding calculation, the amount and timing of pension contributions are unknown other than as disclosed in this Annual Report. For activity in our qualified pension plan assets, *see* note (10) "Employee Benefit Plans" to our consolidated financial statements in "Item 8. Financial Statements and Supplementary Data" included elsewhere in this Annual Report.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

INDEX TO FINANCIAL STATEMENTS

Report of Management on Internal Control Over Financial Reporting

We, the management of FairPoint Communications, Inc., are responsible for establishing and maintaining adequate internal control over financial reporting of the Company. Management has evaluated internal control over financial reporting of the Company as of December 31, 2014 using the criteria for effective internal control established in *Internal Control–Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

Based on such evaluation, management determined that the Company's internal control over financial reporting was effective as of December 31, 2014.

Ernst & Young, LLP, our independent registered public accounting firm who audited the financial statements included in this Annual Report, has issued an attestation report on the Company's internal control over financial reporting. This report appears on the following page.

/s/ Paul H. Sunu

Paul H. Sunu
Chief Executive Officer

/s/ Ajay Sabherwal

Ajay Sabherwal
Executive Vice President and Chief Financial Officer

Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders of FairPoint Communications, Inc. and subsidiaries

We have audited the accompanying consolidated balance sheets of FairPoint Communications, Inc. and subsidiaries as of December 31, 2014 and 2013, and the related consolidated statements of operations, comprehensive (loss) income, stockholders' equity (deficit) and cash flows for each of the three years in the period ended December 31, 2014. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of FairPoint Communications, Inc. and subsidiaries at December 31, 2014 and 2013, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 2014, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), FairPoint Communication, Inc. and subsidiaries' internal control over financial reporting as of December 31, 2014, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) and our report dated March 4, 2015 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

Charlotte, North Carolina
March 4, 2015

Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders of FairPoint Communications, Inc. and subsidiaries

We have audited FairPoint Communications, Inc. and subsidiaries' internal control over financial reporting as of December 31, 2014, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) (the COSO criteria). FairPoint Communications, Inc. and subsidiaries' management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Report of Management on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, FairPoint Communications, Inc. and subsidiaries maintained, in all material respects, effective internal control over financial reporting as of December 31, 2014, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of FairPoint Communications, Inc. and subsidiaries as of December 31, 2014 and 2013, and the related consolidated statements of operations, comprehensive (loss) income, stockholders' equity (deficit) and cash flows for each of the three years in the period ended December 31, 2014, and our report dated March 4, 2015 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

Charlotte, North Carolina
March 4, 2015

FAIRPOINT COMMUNICATIONS, INC. AND SUBSIDIARIES
Consolidated Balance Sheets
(in thousands, except share data)

	December 31, 2014	December 31, 2013
Assets:		
Cash	$ 37,587	$ 42,700
Restricted cash	—	543
Accounts receivable, net	71,545	89,248
Prepaid expenses	25,360	26,552
Other current assets	5,406	3,876
Deferred income tax, net	7,638	18,250
Total current assets	**147,536**	**181,169**
Property, plant and equipment, net	1,213,729	1,301,292
Intangible assets, net	94,879	105,886
Debt issue costs, net	5,949	7,101
Restricted cash	651	651
Other assets	3,214	3,799
Total assets	**$ 1,465,958**	**$ 1,599,898**
Liabilities and Stockholders' Deficit:		
Current portion of long-term debt	$ 6,400	$ 6,400
Current portion of capital lease obligations	627	1,445
Accounts payable	62,985	37,876
Claims payable and estimated claims accrual	216	256
Accrued interest payable	9,978	9,977
Accrued payroll and related expenses	25,218	34,897
Other accrued liabilities	47,147	55,994
Total current liabilities	**152,571**	**146,845**
Capital lease obligations	962	447
Accrued pension obligations	212,806	153,534
Accrued post-retirement healthcare obligations	735,351	584,734
Deferred income taxes	35,231	85,948
Other long-term liabilities	21,131	25,864
Long-term debt, net of current portion	908,190	911,722
Total long-term liabilities	**1,913,671**	**1,762,249**
Total liabilities	**2,066,242**	**1,909,094**
Commitments and contingencies (*See* Note 18)		
Stockholders' deficit:		
Common stock, $0.01 par value, 37,500,000 shares authorized, 26,710,569 and 26,480,837 shares issued and outstanding at December 31, 2014 and 2013, respectively	267	264
Additional paid-in capital	516,080	512,008
Retained deficit	(798,008)	(661,689)
Accumulated other comprehensive loss	(318,623)	(159,779)
Total stockholders' deficit	**(600,284)**	**(309,196)**
Total liabilities and stockholders' deficit	**$ 1,465,958**	**$ 1,599,898**

See accompanying notes to consolidated financial statements.

Table of Contents

FAIRPOINT COMMUNICATIONS, INC. AND SUBSIDIARIES
Consolidated Statements of Operations
(in thousands, except per share data)

	Years Ended December 31, 2014	2013	2012
Revenues	**$ 901,396**	**$ 939,354**	**$ 973,649**
Operating expenses:			
Cost of services and sales, excluding depreciation and amortization	440,979	439,217	450,441
Selling, general and administrative expense, excluding depreciation and amortization	332,909	331,656	332,243
Depreciation and amortization	220,678	282,438	376,614
Reorganization related income (expense)	104	(771)	(3,666)
Total operating expenses	**994,670**	**1,052,540**	**1,155,632**
Loss from operations	**(93,274)**	**(113,186)**	**(181,983)**
Other income (expense):			
Interest expense	(80,371)	(78,675)	(67,610)
Loss on debt refinancing	—	(6,787)	—
Other	7,548	4,863	739
Total other expense	(72,823)	(80,599)	(66,871)
Loss before income taxes	**(166,097)**	**(193,785)**	**(248,854)**
Income tax benefit	29,778	90,291	95,560
Net loss from continuing operations	**(136,319)**	**(103,494)**	**(153,294)**
Gain on sale of discontinued operations, net of taxes	—	10,044	—
Net loss	**$ (136,319)**	**$ (93,450)**	**$ (153,294)**
Weighted average shares outstanding:			
Basic	26,449	26,190	25,987
Diluted	26,449	26,190	25,987
(Loss) income per share, basic:			
Continuing operations	$ (5.15)	$ (3.95)	$ (5.90)
Discontinued operations	—	0.38	—
Loss per share, basic	**$ (5.15)**	**$ (3.57)**	**$ (5.90)**
(Loss) income per share, diluted:			
Continuing operations	$ (5.15)	$ (3.95)	$ (5.90)
Discontinued operations	—	0.38	—
Loss per share, diluted	**$ (5.15)**	**$ (3.57)**	**$ (5.90)**

See accompanying notes to consolidated financial statements.

FAIRPOINT COMMUNICATIONS, INC. AND SUBSIDIARIES
Consolidated Statements of Comprehensive (Loss) Income
(in thousands)

	Years Ended December 31,		
	2014	2013	2012
Net loss	**$ (136,319)**	**$ (93,450)**	**$ (153,294)**
Other comprehensive (loss) income, net of taxes:			
Interest rate swaps (net of $0.7 million and $0.4 million tax benefit)	(1,037)	(601)	—
Qualified pension and post-retirement healthcare plans (net of $8.6 million tax benefit, $45.6 million tax expense, $19.7 million tax benefit, respectively)	(157,807)	96,811	(62,495)
Total other comprehensive income (loss)	**(158,844)**	**96,210**	**(62,495)**
Comprehensive income (loss)	**$ (295,163)**	**$ 2,760**	**$ (215,789)**

See accompanying notes to consolidated financial statements.

FAIRPOINT COMMUNICATIONS, INC. AND SUBSIDIARIES
Consolidated Statements of Stockholders' Equity (Deficit)
Years Ended December 31, 2014, 2013, and 2012
(in thousands)

	Common stock					
	Shares	Amount	Additional paid-in capital	Retained earnings (deficit)	Accumulated other comprehensive (loss) income	Total stockholders' equity (deficit)
Balance at December 31, 2011	**26,197**	**$ 262**	**$ 502,034**	**$ (414,945)**	**$ (193,494)**	**$ (106,143)**
Net loss	—	—	—	(153,294)	—	(153,294)
Issuance of common stock	100	—	—	—	—	—
Forfeiture of restricted stock	(22)	—	—	—	—	—
Exercise of stock options	14		64			64
Stock-based compensation expense	—	—	4,055	—	—	4,055
Employee benefit adjustment to comprehensive loss	—	—	—	—	(62,495)	(62,495)
Balance at December 31, 2012	**26,289**	**$ 262**	**$ 506,153**	**$ (568,239)**	**$ (255,989)**	**$ (317,813)**
Net loss	—	—	—	(93,450)	—	(93,450)
Issuance of common stock	185	2	(2)	—	—	—
Forfeiture of restricted stock	(7)	—	—	—	—	—
Exercise of stock options	14	—	50	—	—	50
Stock-based compensation expense	—	—	5,807	—	—	5,807
Interest rate swaps other comprehensive loss	—	—	—	—	(601)	(601)
Employee benefit other comprehensive income before reclassifications	—	—	—	—	86,841	86,841
Employee benefit amounts reclassified from accumulated other comprehensive loss	—	—	—	—	9,970	9,970
Balance at December 31, 2013	**26,481**	**$ 264**	**$ 512,008**	**$ (661,689)**	**$ (159,779)**	**$ (309,196)**
Net Loss	—	—	—	(136,319)	—	(136,319)
Issuance of common stock	217	3	(3)	—	—	—
Forfeiture of restricted stock	(12)	—	—	—	—	—
Exercise of stock options	25	—	(199)	—	—	(199)
Stock-based compensation expense	—	—	4,274	—	—	4,274
Interest rate swaps other comprehensive loss	—	—	—	—	(1,037)	(1,037)
Employee benefit other comprehensive loss before reclassifications	—	—	—	—	(166,673)	(166,673)
Employee benefit amounts reclassified from accumulated other comprehensive loss	—	—	—	—	8,866	8,866
Balance at December 31, 2014	**26,711**	**$ 267**	**$ 516,080**	**$ (798,008)**	**$ (318,623)**	**$ (600,284)**

See accompanying notes to consolidated financial statements.

FAIRPOINT COMMUNICATIONS, INC. AND SUBSIDIARIES
Consolidated Statements of Cash Flows
(in thousands)

	Years Ended December 31,		
	2014	2013	2012
Cash flows from operating activities:			
Net loss	$ (136,319)	$ (93,450)	$ (153,294)
Adjustments to reconcile net loss to net cash provided by operating activities:			
Deferred income taxes	(29,864)	(94,369)	(96,778)
Provision for uncollectible revenue	9,218	9,806	7,506
Depreciation and amortization	220,678	282,438	376,614
Post-retirement healthcare	51,337	51,035	47,692
Qualified pension	(10,129)	6,250	(42)
Gain on sale of discontinued operations, net	—	(10,044)	—
Loss on debt refinancing	—	6,787	—
Stock-based compensation	4,274	5,807	4,055
Loss on abandoned projects	174	201	2,862
Other non-cash items	1,963	(906)	(3,189)
Changes in assets and liabilities arising from operations:			
Accounts receivable	8,485	(12,127)	9,587
Prepaid and other assets	(338)	(7,044)	(3,301)
Restricted cash	463	5,698	(6,164)
Accounts payable and accrued liabilities	5,068	(2,070)	3,364
Accrued interest payable	1	9,801	(332)
Other assets and liabilities, net	(3,988)	13,721	(4,198)
Reorganization adjustments:			
Non-cash reorganization income	—	(980)	(5,002)
Claims payable and estimated claims accrual	(40)	(46)	(8,824)
Restricted cash—Cash Claims Reserve	80	577	22,219
Total adjustments	**257,382**	**264,535**	**346,069**
Net cash provided by operating activities	**121,063**	**171,085**	**192,775**
Cash flows from investing activities:			
Net capital additions	(119,489)	(128,298)	(145,066)
Proceeds from sale of business	—	30,452	—
Distributions from investments and proceeds from the sale of property and equipment	1,126	1,895	759
Net cash used in investing activities	**(118,363)**	**(95,951)**	**(144,307)**
Cash flows from financing activities:			
Proceeds from issuance of long-term debt	—	920,590	—
Financing costs	—	(13,217)	—
Repayments of long-term debt	(6,400)	(961,800)	(43,000)
Restricted cash	—	—	1,573
Proceeds from exercise of stock options	32	55	64
Repayment of capital lease obligations	(1,445)	(1,265)	(1,252)
Net cash used in financing activities	**(7,813)**	**(55,637)**	**(42,615)**
Net change	**(5,113)**	**19,497**	**5,853**
Cash, beginning of period	42,700	23,203	17,350
Cash, end of period	**$ 37,587**	**$ 42,700**	**$ 23,203**

See accompanying notes to consolidated financial statements.

	Years Ended December 31,		
	2014	2013	2012
Supplemental disclosure of cash flow information:			
Interest paid, net of capitalized interest	$ 75,520	$ 64,786	$ 66,619
Income tax paid, net of refunds	2,363	1,647	562
Capital additions included in accounts payable, claims payable and estimated claims accrual or liabilities subject to compromise at period-end	13,120	8,067	9,501
Capital lease obligations	1,142	467	—
Reorganization costs paid	—	324	1,197
Non-cash settlement of claims payable	—	—	7,668

See accompanying notes to consolidated financial statements.

FAIRPOINT COMMUNICATIONS, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements

Except as otherwise required by the context, references in notes to the consolidated financial statements to:

- *"FairPoint Communications" refers to FairPoint Communications, Inc., excluding its subsidiaries.*
- *"FairPoint" or the "Company" refer to the combined business of FairPoint Communications, Inc. and all of its subsidiaries after giving effect to the merger on March 31, 2008 with Northern New England Spinco Inc. ("Spinco"), a subsidiary of Verizon Communications Inc. ("Verizon"), which transaction is referred to herein as the "Merger".*
- *"Northern New England operations" refers to the local exchange business acquired from Verizon and certain of its subsidiaries after giving effect to the Merger.*
- *"Telecom Group" refers to FairPoint, exclusive of our acquired Northern New England operations.*

(1) Organization and Principles of Consolidation

Organization

FairPoint is a leading provider of advanced communications services to business, wholesale and residential customers within its service territories. FairPoint offers its customers a suite of advanced data services such as Ethernet, high capacity data transport and other IP-based services over an extensive, next-generation fiber network with more than 16,000 miles of fiber optic cable in addition to Internet access, high-speed data ("HSD") and local and long distance voice services. As of December 31, 2014, FairPoint's service territory spanned 17 states where it is the incumbent communications provider, primarily serving rural communities and small urban markets. Many of its local exchange carriers ("LECs") have served their respective communities for more than 80 years. As of December 31, 2014, the Company operated with approximately 1.1 million access line equivalents in service, including approximately 322,000 broadband subscribers.

Principles of Consolidation

The consolidated financial statements include all majority-owned subsidiaries of the Company. Partially owned equity affiliates are accounted for under the cost method or equity method when the Company demonstrates significant influence, but does not have a controlling financial interest. Intercompany accounts and transactions have been eliminated upon consolidation.

Reorganization

On October 26, 2009, the Company and substantially all of its direct and indirect subsidiaries filed voluntary petitions for relief under chapter 11 of title 11 ("Chapter 11") of the United States Code. These cases were jointly administered under the caption *In re FairPoint Communications, Inc.* (collectively, the "Chapter 11 Cases") in the United States Bankruptcy Court for the Southern District of New York (the "Bankruptcy Court"). On January 24, 2011 (the "Effective Date"), the Company substantially consummated its reorganization through a series of transactions contemplated by its Third Amended Joint Plan of Reorganization Under Chapter 11 of the United States Code (as confirmed by the Bankruptcy Court, the "Plan").

(2) Significant Accounting Policies

(a) Presentation and Use of Estimates

The accompanying consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States ("U.S. GAAP"), which require management to make estimates and assumptions that affect reported amounts and disclosures. Actual results could differ from those estimates. The consolidated financial statements reflect all adjustments that, in the opinion of management, are necessary for a fair presentation of results of operations and financial condition for the interim periods shown, including normal recurring accruals and other items.

Examples of significant estimates include the allowance for doubtful accounts, revenue reserves, the depreciation of property, plant and equipment, valuation of intangible assets, qualified pension and post-retirement healthcare plan assumptions, stock-based compensation and income taxes.

(b) Revenue Recognition

Revenues are recognized as services are rendered and are primarily derived from the usage of the Company's networks and facilities or under revenue-sharing arrangements with other communications carriers. Revenues are primarily derived from: voice services, access (including pooling), certain Connect America Fund ("CAF") receipts, Internet and broadband services and other miscellaneous services. Local access charges are billed to local end users under tariffs approved by each state's Public Utilities Commission ("PUC") or by rates, terms and conditions determined by the Company. Access revenues are derived for the intrastate jurisdiction by billing access charges to interexchange carriers and to other local exchange carriers ("LECs"). These charges are billed based on toll or access tariffs approved by the local state's PUC. Access charges for the interstate jurisdiction are billed in accordance with tariffs filed by the National Exchange Carrier Association ("NECA") or by the individual company and approved by the Federal Communications Commission (the "FCC").

Revenues are determined on a bill-and-keep basis or a pooling basis. If on a bill-and-keep basis, the Company bills the charges to either the access provider or the end user and keeps the revenue. If the Company participates in a pooling environment (interstate or intrastate), the toll or access billed is contributed to a revenue pool. The revenue is then distributed to individual companies based on their company-specific revenue requirement. This distribution is based on individual state PUCs' (intrastate) or the FCC's (interstate) approved separation rules and rates of return. Distribution from these pools can change relative to changes made to expenses, plant investment or rate-of-return. Some companies participate in federal and certain state universal service programs that are pooling in nature but are regulated by rules separate from those described above. These rules vary by state. Revenues earned through the various pooling arrangements are initially recorded based on the Company's estimates. Rule changes associated with the FCC's CAF/ICC Order (as defined hereinafter) impact the NECA interstate pooling, in that a portion of the Company's interstate Universal Service Fund ("USF") revenues, which are administered through the NECA pools and which prior to January 1, 2012 were based on costs, are now based on the CAF Phase I rules and will be based on CAF Phase II rules when those are put into effect.

Long distance retail and wholesale services can be recurring due to coverage under an unlimited calling plan or usage sensitive. In either case, they are billed in arrears and recognized when earned. Internet and data services revenues are substantially all recurring revenues and are billed one month in advance and deferred until earned.

As of December 31, 2014 and December 31, 2013, unearned revenue expected in the next 12 months of $19.0 million and $18.0 million, respectively, was included in current other accrued liabilities on the consolidated balance sheets. As of December 31, 2014 and December 31, 2013, unearned revenue expected thereafter of $9.3 million and $10.5 million, respectively, was included in other long-term liabilities on the consolidated balance sheets.

The majority of the Company's other miscellaneous services revenue is generated from ancillary special projects at the request of third parties, video services, directory services and late payment charges to end users and interexchange carriers. The Company requires customers to pay for ancillary special projects in advance. As of December 31, 2014 and 2013, customer deposits of $3.4 million and $6.8 million, respectively, were included in current other accrued liabilities on the consolidated balance sheets. Once the ancillary special project is completed or substantially complete and all project costs have been accumulated for proper accounting recognition, the advance payment is recognized as revenue with any overpayments refunded to the customer, as appropriate. The Company recognizes revenue upon the provision of video services in certain markets by reselling DirecTV and providing cable and IP television video-over-digital subscriber line services. The Company also publishes telephone directories in some of its Telecom Group markets and recognizes revenues associated with these publications evenly over the time period covered by the directory, which is typically twelve months. The Company bills late payment fees to customers who have not paid their bills in a timely manner. In general, late fee revenue is recognized based on collection of these charges.

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

The Company was subject to retail service quality plans in Maine, New Hampshire and Vermont in 2012 and for a portion of 2013 in Maine and Vermont, pursuant to which automatic service quality index ("SQI") penalties were imposed upon the Company's failure to meet the requirements of the respective plans. Penalties resulting from these commitments were recorded as a reduction to revenue and to current other accrued liabilities on the consolidated balance sheets. On June 26, 2014, the Maine PUC ("MPUC") adopted a final rule (Chapter 201), establishing new provider of last resort ("POLR") SQI standards and reporting requirements which began August 1, 2014. Under Chapter 201, the MPUC may open an investigation into the failure to meet any of the established standards and has the authority to impose penalties of up to $500,000 per standard. On January 13, 2015, the MPUC issued a Notice of Investigation to review our service quality in Maine. In addition, the Vermont Public Service Board opened an investigation into service quality on December 3, 2014 at the request of the Department of Public Service. The Company also adopted a separate performance assurance plan ("PAP") for certain services provided on a wholesale basis to competitive local exchange carriers ("CLECs") in each of the states of Maine, New Hampshire and Vermont, pursuant to which FairPoint is required to provide performance credits in the event the Company is unable to meet the provisions of the respective PAP. Penalties resulting from these commitments are recorded as a reduction to revenue. In Maine and New Hampshire, these penalties are recorded as a reduction to accounts receivable on the consolidated balance sheets since they are paid by the Company in the form of credits applied to CLEC bills. PAP penalties in Vermont are recorded to other accrued liabilities on the consolidated balance sheets as a majority of these penalties are paid to the Vermont Universal Service Fund ("VUSF"), while the remaining credits assessed in Vermont are paid by the Company in the form of credits applied to CLEC bills.

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

Customer arrangements that include both equipment and services are evaluated to determine whether the elements are separable. If the elements are deemed separable and separate earnings processes exist, the revenue associated with each element is allocated to each element based on the relative estimated selling price of the separate elements. The Company has estimated the selling prices of each element by reference to vendor-specific objective evidence of selling prices when the elements are sold separately. The revenue associated with each element is then recognized as earned.

Management makes estimated adjustments, as necessary, to revenue and accounts receivable for billing errors, including certain disputed amounts.

(c) Cash and Cash Equivalents

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

(d) Accounts Receivable

Accounts receivable are recorded at the invoiced amount and do not bear interest. The allowance for doubtful accounts is recorded as a contra-asset of accounts receivable and represents the Company's best estimate of probable credit losses in the Company's existing accounts receivable. The Company establishes an allowance for doubtful accounts based upon factors surrounding the credit risk of specific customers, historical trends, and other information. Accounts receivable balances are reviewed on an aged basis and account balances are written off against the allowance after all means of collection have been exhausted and the potential for recovery is considered remote.

The following is activity in the Company's allowance for doubtful accounts receivable for the years ended December 31, 2014, 2013 and 2012 (in thousands):

	Years Ended December 31,		
	2014	2013	2012
Balance, beginning of period	**$ 13,142**	**$ 18,863**	**$ 11,497**
Provision charged to expense	9,218	9,806	7,506
Provision charged to other accounts [(a)]	(43)	(163)	(341)
Amounts written off, net of recoveries [(b)]	(12,423)	(15,364)	211
Assets held for sale adjustment	—	—	(10)
Balance, end of period	**$ 9,894**	**$ 13,142**	**$ 18,863**

(a) Provision charged to other accounts includes accruals charged to accounts payable for anticipated uncollectible charges on purchase of accounts receivable from others which were billed by the Company.

(b) Net recoveries for the year ended December 31, 2012 are primarily due to settlements with wholesale carriers for accounts receivable previously reserved as uncollectible.

(e) Credit Risk

The financial instruments which potentially subject the Company to concentrations of credit risk consist principally of cash and gross accounts receivable existing at December 31, 2014. The Company places its cash with high-quality financial institutions. Concentrations of credit risk with respect to accounts receivable are principally related to trade receivables from other interexchange carriers and are otherwise limited to the Company's large number of customers in several states.

The Company sponsors qualified pension plans for certain employees. Plan assets associated with these qualified pension plans are held by third party trustees and investments are comprised principally of debt and equity securities. The fair value of these plan assets is dependent on the financial condition of those entities issuing the debt and equity securities. A significant decline in the fair value of plan assets could result in additional Company contributions to the qualified pension plans in order to meet funding requirements under the Employee Retirement Income Security Act of 1974, as amended ("ERISA"). For additional information regarding the plan assets of the Company's qualified pension plans, including the December 31, 2014 balance at risk, *see* note (10) "Employee Benefit Plans" herein.

(f) Property, Plant and Equipment

In connection with the Company's adoption of fresh start accounting on the Effective Date, accumulated depreciation was reset to zero and the net carrying value of the Company's existing property, plant and equipment assets were revalued to their fair value, generally their appraised value after considering economic obsolescence. New remaining useful asset lives were established for each asset ranging from two to twenty-three years.

Given that a majority of the Company's property, plant and equipment is plant used in the Company's wireline and next generation networks, depreciation is principally based on the composite group remaining life method and straight-line composite rates. This methodology provides for the recognition of the cost of the remaining net investment in telephone plant, property and equipment less anticipated positive net salvage value, over the remaining asset lives. When depreciable telephone plant is replaced or retired, the carrying amount of such plant is deducted from the respective accounts and charged to accumulated depreciation. No gain or loss is recognized on disposition of assets. Use of this methodology requires the periodic revision of depreciation rates. In the evaluation of asset lives, multiple factors are considered, including, but not limited to, the ongoing network deployment, technology upgrades and enhancements, planned retirements and the adequacy of reserves. The Company utilizes straight-line depreciation for its non-telephone property, plant and equipment.

Periodically, the Company reviews the estimated remaining useful lives of its group asset categories to address continuing changes in technology, competition and the Company’s overall reduction in capital spending and increased focus on more efficient utilization of its existing assets. In the third quarter of 2013, the Company conducted this review and determined that changes to the estimated remaining useful lives for certain asset categories were appropriate. Accordingly, as a result of the changes to the remaining useful lives, depreciation expense in 2013 was approximately $37.0 million less than it would have been absent the changes.

Network software purchased or developed in connection with related plant assets is capitalized. The Company also capitalizes interest associated with the acquisition or construction of network related assets. Capitalized interest is reported as part of the cost of the network related assets and as a reduction in interest expense. *See* "(i) Computer Software and Interest Costs" herein for additional information.

(g) Long-Lived Assets

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

As of December 31, 2014, the Company performed its routine review of impairment triggering events specified by the Property, Plant and Equipment Topic of the ASC and concluded that it does not believe a triggering event has occurred with respect to property, plant and equipment and intangible assets subject to amortization.

(h) Asset Retirement Obligations

The Company records the estimated fair value of an asset retirement obligation when incurred. The associated asset retirement costs are capitalized as part of the carrying amount of the long-lived asset and depreciated over the asset's estimated useful life. The Company has asset retirement obligations related to battery, fuel tank and chemically-treated pole disposal as well as soil remediation at leased facilities. Considerable management judgment is required in estimating these obligations. Important assumptions include estimates of retirement costs, the timing of the future retirement activities and the likelihood or retirement provisions being enforced. Changes in these assumptions based on future information could result in adjustments to estimated liabilities.

(i) Computer Software and Interest Costs

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

Subsequent additions, modifications or upgrades to internal-use software are capitalized only to the extent that they allow the software to perform a task it previously did not perform. Software maintenance and training costs are expensed in the period in which they are incurred.

In addition, the Company capitalizes the interest cost associated with the period of time over which the Company's internal use software is developed or obtained in accordance with the Interest Topic of the ASC.

During the years ended December 31, 2014, 2013, and 2012, the Company capitalized $18.0 million, $20.0 million and $9.5 million, respectively, in software costs. The Company capitalized $0.1 million, $0.1 million and $0.1 million, respectively, in interest costs for the years ended December 31, 2014, 2013 and 2012.

As of the year ended December 31, 2014, the gross value and accumulated depreciation of the capitalized software was $153.1 million and $115.3 million, respectively. As of the year ended December 31, 2013 the gross value and accumulated depreciation of the capitalized software was $135.0 million and $104.0 million, respectively. During the years ended December 31, 2014, 2013 and 2012, amortization expense on the capitalized software was $11.4 million, $15.4 million and $47.2 million, respectively, and is expected to be $12.5 million in 2015, $10.8 million in 2016, $8.2 million in 2017, $5.1 million in 2018 and $1.2 million in 2019, respectively.

(j) Impairment of Other Intangible Assets

Indefinite-lived Intangible Asset. In accordance with the Intangibles—Goodwill and Other Topic of the ASC, non-amortizable intangible assets are assessed for impairment at least annually. The Company performs its annual impairment test as of the first day of the fourth fiscal quarter of each year and assesses the fair value of the trade name based on the relief from royalty method. If the carrying amount of the trade name exceeds its estimated fair value, the asset is considered impaired.

For its non-amortizable intangible asset impairment assessments of the FairPoint trade name, the Company makes certain assumptions including an estimated royalty rate, a long-term growth rate, an effective tax rate and a discount rate, and applies these assumptions to projected future cash flows, exclusive of cash flows associated with wholesale revenues and other revenues not generated through brand recognition. As of October 1, 2014, the estimated fair value exceeded the carrying value in the Company's quantitative analysis; therefore, an impairment was not necessary. The Company performed another quantitative analysis as of December 31, 2014 and the estimated fair value exceeded the carrying value by approximately 4%; therefore, an impairment was not necessary. However, future changes in one or more of the assumptions discussed above may result in the recognition of an impairment loss.

Amortizable Intangible Assets. Amortizable intangible assets must be reviewed for impairment as part of long-lived assets whenever indicators of impairment exist. *See* "(g) Long-Lived Assets" herein for additional information.

(k) Accounting for Income Taxes

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

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

FairPoint Communications files a consolidated income tax return with its subsidiaries. All intercompany transactions and accounts have been eliminated in consolidation.

(l) Stock-Based Compensation

The Company accounts for its stock-based compensation plan in accordance with the Compensation—Stock Compensation Topic of the ASC, which establishes accounting for stock-based awards granted in exchange for employee services. Accordingly, for employee awards which are expected to vest, stock-based compensation cost is measured at the grant date, based on the fair value of the award, and is recognized as expense on a straight-line basis over the requisite service period, which generally begins on the date the award is granted through the date the award vests.

(m) Employee Benefit Plans

The Company accounts for qualified pension plans and other post-retirement healthcare plans in accordance with the Compensation-Retirement Benefits Topic of the ASC. The Company recognizes the overfunded or underfunded status of its qualified defined benefit plans and post-retirement healthcare plans as either an asset or liability, respectively, on the consolidated balance sheets. Actuarial gains and losses that arise during the year are recognized as a component of comprehensive loss, net of applicable income taxes, and included in accumulated other comprehensive loss. These gains and losses are amortized over future years as a component of the net periodic benefit cost.

(n) Operating Segments

Management views its business of providing data, video and voice communication services to residential, wholesale and business customers as one operating segment as defined in the Segment Reporting Topic of the ASC. The Company's services consist of retail and wholesale telecommunications and data services, including voice and HSD in 17 states. The Company's chief operating decision maker assesses operating performance and allocates resources based on the consolidated results.

(o) Other Liabilities

Accrued Bonuses. As of December 31, 2014 and 2013, accrued bonuses of $6.2 million and $14.3 million, respectively, were included in accrued payroll and related liabilities on the consolidated balance sheets.

Unfavorable intangible assets. As of December 31, 2013, unfavorable union contracts of $2.1 million were included in other long-term liabilities; however, they were fully amortized during 2014 as a reduction of employee expense within operating expenses.

(p) Advertising Costs

Advertising costs are expensed as they are incurred. During the years ended December 31, 2014, 2013 and 2012, advertising costs were $9.8 million, $9.9 million and $10.1 million, respectively.

(q) Interest Rate Swap Agreements

In the third quarter of 2013, the Company entered into interest rate swap agreements. For further information regarding these interest rate swap agreements, *see* note (8) "Interest Rate Swap Agreements." The interest rate swap agreements, at their inception, qualified for and were designated as cash flow hedging instruments. In accordance with the Derivatives and Hedging Topic of the ASC, the Company records its interest rate swaps on the consolidated balance sheets at fair value. The effective portion of changes in fair value are recorded in accumulated other comprehensive loss and are subsequently reclassified into earnings in the period that the hedged forecasted transaction affects earnings. Any ineffective portion is recognized in earnings. Both at inception and on a quarterly basis, the Company performs an effectiveness test.

(3) Recent Accounting Pronouncements

In July 2013, the Financial Accounting Standard Board ("FASB") issued Accounting Standard Update ("ASU") 2013-11, which is designed to reduce diversity in practice of financial statement presentation of an unrecognized tax benefit when a net operating loss carryforward, a similar tax loss or a tax credit carryforward exists. This new guidance became effective for the Company on January 1, 2014. The Company adopted this ASU during the quarter ended March 31, 2014 and it did not have a material impact on the Company's consolidated financial statements.

In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers, which is designed to clarify the principles used to recognize revenue for entities. The accounting guidance defines how companies report revenues from contracts with customers, and also requires enhanced disclosures. The guidance becomes effective for the Company on January 1, 2017 and allows for two methods of adoption: (1) "full retrospective" adoption, meaning the standard is applied to all periods presented, or (2) "modified retrospective" adoption, meaning the cumulative effect of applying ASU 2014-09 is recognized as an adjustment to the fiscal year 2017 opening retained earnings balance. The Company is evaluating the potential impact of this pronouncement.

In August 2014, the FASB issued ASU 2014-15, Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern, which requires management to evaluate whether there is substantial doubt about an entity's ability to continue as a going concern and to provide related footnote disclosures in certain circumstances. ASU 2014-15 is effective for annual and interim periods beginning after December 15, 2016 with early adoption permitted. We do not believe the adoption of this pronouncement will have a material impact on the Company's consolidated financial statements.

(4) Dividends

The Company currently does not pay a dividend on its common stock and has no plans to pay dividends.

(5) Other Intangible Assets

Indefinite-lived Intangible Asset

At December 31, 2014 and 2013, the Company's trade name is recorded at $39.2 million. On October 1, 2014 and October 1, 2013, the Company performed its annual non-amortizable intangible asset quantitative analysis and concluded that there was no impairment at that time. As of December 31, 2014, the Company performed its routine review of impairment indicators specified by the Intangibles—Goodwill and Other Topic of the ASC and performed another quantitative analysis. As of December 31, 2014, the estimated fair value exceeded the carrying value by approximately 4%; therefore, an impairment was not necessary.

Other Amortizable Intangible Assets

The Company's amortizable intangible assets are as follows (in thousands):

	December 31, 2014	December 31, 2013
Customer lists *(weighted average 9.0 years)*:		
Gross carrying amount	$ 99,000	$ 99,000
Less: accumulated amortization	(43,290)	(32,290)
Net customer lists	**55,710**	**66,710**
Favorable leasehold agreements *(weighted average 2.7 years)*:		
Gross carrying amount	410	410
Less: accumulated amortization	(410)	(403)
Net favorable leasehold agreements	**—**	**7**
Total amortizable intangible assets, net *(weighted average 8.9 years)*	**$ 55,710**	**$ 66,717**

Amortization expense of the Company's amortizable intangible assets was $11.0 million, $11.1 million and $11.2 million for the years ended December 31, 2014, 2013 and 2012, respectively, and is expected to be approximately $11.0 million in 2015, 2016, 2017, 2018 and 2019, respectively.

(6) Property, Plant and Equipment

A summary of property, plant and equipment is shown below (in thousands):

	Estimated Life (in years)	December 31, 2014	December 31, 2013
Land	—	$ 34,932	$ 35,585
Buildings	40	199,159	191,348
Central office equipment	7 – 10	604,621	559,304
Outside communications plant	15 – 35	1,124,865	1,091,238
Furniture, vehicles and other work equipment	5 – 15	224,728	197,439
Plant under construction	—	90,979	93,734
Other	—	19,860	18,881
Total property, plant and equipment		**2,299,144**	**2,187,529**
Less: Accumulated depreciation		(1,085,415)	(886,237)
Net property, plant and equipment		**$ 1,213,729**	**$ 1,301,292**

Depreciation expense, excluding amortization of intangible assets, for the years ended December 31, 2014, 2013 and 2012 was $209.7 million, $271.3 million and $365.5 million, respectively. Depreciation expense includes amortization of assets recorded under capital leases.

The Company recorded a negligible amount of asset retirement obligations during the year ended December 31, 2014. Accretion expense, revisions in cash flow estimates and liability settlements were insignificant during the year. The Company's asset retirement obligations are included as a component of other accrued liabilities or other long-term liabilities in the consolidated balance sheets based on the expected timing of the obligation. As of December 31, 2014, the Company's asset retirement liability of $4.4 million consisted of $1.1 million in other accrued liabilities and $3.3 million in other long-term liabilities. As of December 31, 2013, the Company's asset retirement liability of $4.3 million consisted of $1.1 million in other accrued liabilities and $3.2 million in other long-term liabilities.

(7) Long-term Debt

Long-term debt for the Company at December 31, 2014 and 2013 is shown below (in thousands):

	December 31, 2014	December 31, 2013
Term Loan, due 2019 *(weighted average rate of 7.50%)*	$ 628,800	$ 635,200
Discount on Term Loan [a]	(14,210)	(17,078)
Notes, 8.75%, due 2019	300,000	300,000
Total long-term debt	$ 914,590	$ 918,122
Less: current portion	(6,400)	(6,400)
Total long-term debt, net of current portion	**$ 908,190**	**$ 911,722**

(a) The $14.2 million and $17.1 million discount on the Term Loan (as defined below) as of December 31, 2014 and December 31, 2013, respectively, is being amortized using the effective interest method over the life of the Term Loan.

As of December 31, 2014, the Company had $58.8 million, net of $16.2 million outstanding letters of credit, available for additional borrowing under the Revolving Facility (as defined below).

The approximate aggregate maturities of long-term debt, excluding the debt discount on the Term Loan (as defined below), for each of the five years subsequent to December 31, 2014 are as follows (in thousands):

Year ending December 31,		Balance Due
2015	$	6,400
2016		6,400
2017		6,400
2018		6,400
2019		903,200
Total long-term debt, including current portion	**$**	**928,800**

Refinancing

On February 14, 2013 (the "Refinancing Closing Date"), FairPoint Communications refinanced the Old Credit Agreement Loans (as defined herein) (the "Refinancing"). In connection with the Refinancing, FairPoint Communications (i) issued $300.0 million aggregate principal amount of its 8.75% senior secured notes due 2019 (the "Notes") in a private offering exempt from registration under the Securities Act pursuant to an indenture (the "Indenture") that FairPoint Communications entered into on the Refinancing Closing Date with certain of its subsidiaries that guarantee the indebtedness under the Credit Agreement (as defined herein) (the "Subsidiary Guarantors") and U.S. Bank National Association, as trustee and collateral agent, and (ii) entered into a credit agreement (the "Credit Agreement"), dated as of the Refinancing Closing Date, with the lenders party thereto from time to time and Morgan Stanley Senior Funding, Inc., as administrative agent and letter of credit issuer. The Credit Agreement provides for a $75.0 million revolving credit facility (the "Revolving Facility"), which has a sub-facility providing for the issuance of up to $40.0 million in letters of credit, and a $640.0 million term loan facility (the " Term Loan" and, together with the Revolving Facility, the "Credit Agreement Loans"). On the Refinancing Closing Date, FairPoint Communications used the proceeds of the Notes offering, together with $640.0 million of borrowings under the Term Loan and cash on hand to (i) repay principal of $946.5 million outstanding on the Old Term Loan (as defined herein), plus approximately $7.7 million of accrued interest and (ii) pay approximately $32.6 million of fees, expenses and other costs related to the Refinancing.

The Credit Agreement. The principal amount of the Term Loan and commitments under the Revolving Facility may be increased by an aggregate amount of up to $200.0 million, subject to certain terms and conditions specified in the Credit Agreement. The Term Loan will mature on February 14, 2019 and the Revolving Facility will mature on February 14, 2018, subject in each case to extensions pursuant to the terms of the Credit Agreement.

Interest Rates and Fees. Interest on borrowings under the Credit Agreement Loans accrue at an annual rate equal to either a British Bankers Association London Inter-Bank Offered Rate ("LIBOR") or the base rate, in each case plus an applicable margin. LIBOR is a per annum rate for dollar deposits with an interest period of one, two, three or six months (at FairPoint Communication's election), subject to a minimum LIBOR floor of 1.25%. The base rate is the per annum rate equal to the greatest of (x) the federal funds effective rate plus 0.50%, (y) the rate of interest publicly quoted from time to time by The Wall Street Journal as the United States "Prime Rate" and (z) LIBOR with an interest period of one month plus 1.00%. The applicable margin for the Term Loan is (a) 6.25% per annum with respect to term loans bearing interest based on LIBOR or (b) 5.25% per annum with respect to term loans bearing interest based on the base rate. The applicable interest rate for the Revolving Facility is, initially, (a) 5.50% with respect to revolving loans bearing interest based on LIBOR or (b) 4.50% per annum with respect to revolving loans bearing interest based on the base rate, in each case subject to adjustment based on FairPoint Communication's consolidated total leverage ratio, as defined in the Credit Agreement. FairPoint Communications is required to pay a quarterly letter of credit fee on the average daily amount available to be drawn under letters of credit equal to the applicable interest rate for revolving loans bearing interest based on LIBOR, plus a fronting fee of 0.125% per annum on the average daily amount available to be drawn under such letters of credit. In addition, FairPoint Communications is required to pay a quarterly commitment fee on the average daily unused portion of the New Revolving Facility, which is 0.50% initially, subject to reduction to 0.375% based on FairPoint Communication's consolidated total leverage ratio.

Security/Guarantors. All obligations under the Credit Agreement, together with certain designated hedging obligations and cash management obligations, are unconditionally guaranteed on a senior secured basis by each of the Subsidiary Guarantors and secured by a first-priority lien on substantially all personal property of FairPoint Communications and the Subsidiary Guarantors, subject to certain exclusions set forth in the related security documents, pari passu with the lien securing the obligations under the Notes.

Mandatory Repayments. FairPoint Communications is required to make quarterly repayments of the Term Loan in a principal amount equal to $1.6 million during the term of the Credit Agreement. In addition, mandatory repayments are required under the Credit Agreement with (i) a percentage, initially equal to 50% and subject to reduction to 25% based on FairPoint Communication's consolidated total leverage ratio, of FairPoint Communication's excess cash flow, as defined in the Credit Agreement, (ii) the net cash proceeds of certain asset dispositions, insurance proceeds and condemnation awards and (iii) issuances of debt not permitted to be incurred under the Credit Agreement. Optional prepayments and mandatory prepayments resulting from the incurrence of debt not permitted to be incurred under the Credit Agreement are required to be made at (i) 102.0% of the aggregate principal amount prepaid if such prepayment is made on or prior to February 14, 2015 and (ii) 101.0% of the aggregate principal amount prepaid if such prepayment is made after February 14, 2015 and on or prior to February 14, 2016. No premium is required to be paid for prepayments made after February 14, 2016.

Covenants. The Credit Agreement contains customary representations and warranties and affirmative and negative covenants for a transaction of this type, including two financial maintenance covenants: (i) a consolidated interest coverage ratio and (ii) a consolidated total leverage ratio. The Credit Agreement also contains a covenant limiting the amount of capital expenditures that FairPoint Communications and its subsidiaries may make in any fiscal year. As of December 31, 2014, FairPoint Communications was in compliance with all covenants under the Credit Agreement.

Events of Default. The Credit Agreement also contains customary events of default for a transaction of this type.

The Notes. On the Refinancing Closing Date, FairPoint Communications issued $300.0 million of the Notes pursuant to the Indenture in a private offering exempt from registration under the Securities Act.

The terms of the Notes are governed by the Indenture. The Notes are senior secured obligations of FairPoint Communications and are guaranteed by the Subsidiary Guarantors. The Notes and the guarantees thereof are secured by a first-priority lien on substantially all personal property of FairPoint Communications and the Subsidiary Guarantors, subject to certain exclusions set forth in the related security documents, pari passu with the lien securing the obligations under the Credit Agreement. The Notes will mature on August 15, 2019 and accrue interest at a rate of 8.75% per annum, which is payable semi-annually in arrears on February 15 and August 15, commencing on August 15, 2013.

On or after February 15, 2016, FairPoint Communications may redeem all or part of the Notes at the redemption prices set forth in the Indenture, plus accrued and unpaid interest thereon, to the applicable redemption date. At any time prior to February 15, 2016, FairPoint Communications may redeem all or part of the Notes at a redemption price equal to 100% of the principal amount of the Notes redeemed, plus a "make-whole" premium as of, and accrued and unpaid interest to, the applicable redemption date. In addition, at any time prior to February 15, 2016, FairPoint Communications may, on one or more occasions, redeem up to 35% of the original aggregate principal amount of the Notes, using net cash proceeds of certain qualified equity offerings, at a redemption price of 108.75% of the principal amount of Notes redeemed, plus accrued and unpaid interest to the applicable redemption date.

The holders of the Notes have the ability to require FairPoint Communications to repurchase all or any part of the Notes if FairPoint Communications experiences certain kinds of changes in control or engages in certain asset sales, in each case at the repurchase prices and subject to the terms and conditions set forth in the Indenture.

The Indenture contains certain covenants which are customary with respect to non-investment grade debt securities, including limitations on FairPoint Communication's ability to incur additional indebtedness, pay dividends on or make other distributions or repurchase FairPoint Communication's capital stock, make certain investments, enter into certain types of transactions with affiliates, create liens and sell certain assets or merge with or into other companies. These covenants are subject to a number of important limitations and exceptions. As of December 31, 2014, FairPoint Communications was in compliance with all covenants under the Indenture.

The Indenture also provides for customary events of default, including cross defaults to other specified debt of FairPoint Communications and certain of its subsidiaries.

Old Credit Agreement

On January 24, 2011, FairPoint Communications and FairPoint Logistics, Inc. (collectively, the "Old Credit Agreement Borrowers") entered into a $1,075.0 million senior secured credit facility with a syndicate of lenders and Bank of America, N.A., as the administrative agent for the lenders (the "Old Credit Agreement"), comprised of a $75.0 million revolving facility (the "Old Revolving Facility") and a $1.0 billion term loan (the "Old Term Loan" and together with the Old Revolving Facility, the "Old Credit Agreement Loans"). On January 24, 2011, the Company paid to the lenders providing the Old Revolving Facility an aggregate fee equal to $1.5 million. Interest on the Old Credit Agreement Loans accrued at an annual rate equal to either (a) LIBOR plus 4.50%, with a minimum LIBOR floor of 2.00% for the Old Term Loan, or (b) a base rate plus 3.50% per annum, which base rate was equal to the highest of (x) Bank of America's prime rate, (y) the federal funds effective rate plus 0.50% and (z) the applicable LIBOR plus 1.00%. In addition, the Company was required to pay a 0.75% per annum commitment fee on the average daily unused portion of the Old Revolving Facility. The entire outstanding principal amount of the Old Credit Agreement Loans was to be due and payable on January 24, 2016. The Old Credit Agreement required quarterly repayments of principal of the Old

Term Loan after the first anniversary of January 24, 2011. During 2012 and in the first quarter of 2013, prior to the Old Credit Agreement being retired, the Company made $43.0 and $10.5 million, respectively, of principal payments on the Old Term Loan.

The Old Credit Agreement contained customary representations, warranties and affirmative and negative covenants. The Old Credit Agreement also contained minimum interest coverage and maximum total leverage maintenance covenants, along with a maximum senior leverage covenant measured upon the incurrence of certain types of debt. As of December 31, 2012, the Old Credit Agreement Borrowers were in compliance with all covenants under the Old Credit Agreement.

On February 14, 2013, the Company completed the Refinancing and repaid all amounts outstanding under the Old Credit Agreement.

Debt Issue Costs

On February 14, 2013, the Company completed the Refinancing and capitalized $7.6 million of debt issue costs associated with the Credit Agreement and Notes. These debt issue costs are being amortized over a weighted average life of 6.2 years using the effective interest method.

As of December 31, 2014 and 2013, the Company had capitalized debt issue costs of $5.9 million and $7.1 million, respectively, net of amortization.

(8) Interest Rate Swap Agreements

The Company uses interest rate swap agreements to protect the Company against adverse fluctuations in interest rates by reducing its exposure to variability in cash flows relating to interest payments on a portion of its outstanding debt. The Company's interest rate swaps, which are designated as cash flow hedges, involve the receipt of variable amounts from counterparties in exchange for the Company making fixed-rate payments over the effective term of the agreements without exchange of the underlying notional amount. The Company does not hold or issue any derivative financial instruments for speculative trading purposes.

In the third quarter of 2013, the Company entered into interest rate swap agreements with a combined notional amount of $170.0 million with three counterparties that are effective for a two-year period beginning on September 30, 2015 and maturing on September 30, 2017. Each respective swap agreement requires the Company to pay a fixed rate of 2.665% and provides that the Company will receive a variable rate based on the three month LIBOR rate subject to a minimum LIBOR floor of 1.25%. Amounts payable by or due to the Company will be net settled with the respective counterparties on the last business day of each fiscal quarter, commencing December 31, 2015.

The effect of the Company's interest rate swap agreements on the consolidated balance sheet at December 31, 2014 and December 31, 2013 are shown below (in thousands):

	As of December 31, 2014		
Derivatives designated as hedging instruments:	Balance Sheet Location	Fair Value	
Interest rate swaps	Other long-term liabilities	$	2,742

	As of December 31, 2013		
Derivatives designated as hedging instruments:	Balance Sheet Location	Fair Value	
Interest rate swaps	Other long-term liabilities	$	1,005

The gross effect of the Company's interest rate swap agreements on the consolidated statements of comprehensive (loss) income for the years ended December 31, 2014 and December 31, 2013 are shown below (in thousands):

	Amount of Loss Recognized in Other Comprehensive Loss on Derivative (Effective Portion) (Pre-tax)			
	Year Ended December 31, 2014		Year Ended December 31, 2013	
Interest Rate Swaps	$	1,737	$	1,005

There were no amounts reclassified into current earnings due to ineffectiveness during the periods presented. The Company estimates that none of the amount reported in accumulated other comprehensive loss for interest rate swaps is expected to be reclassified to interest expense in the next 12 months.

Each interest rate swap agreement contains a provision whereby if the Company defaults on any of its indebtedness, the Company may also be declared in default under the interest rate swap agreements.

(9) Fair Value

The Fair Value Measurements and Disclosures Topic of the ASC defines fair value, establishes a framework for measuring fair value and establishes a hierarchy that categorizes and prioritizes the sources to be used to estimate fair value. The Fair Value Measurements and Disclosures Topic of the ASC also expands financial statement disclosures about fair value measurements.

In determining fair value, the Company uses a hierarchy for inputs used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the most observable inputs be used when available. The hierarchy is broken down into three levels based on the reliability of inputs as follows:

Level 1 - Valuations based on quoted prices in active markets for identical assets or liabilities that the Company has the ability to access.
Level 2 - Valuations based on quoted prices for similar instruments in active markets or quoted prices in markets that are not active or for which all significant inputs are observable, either directly or indirectly.
Level 3 - Valuations based on inputs that are unobservable and significant to the overall fair value measurement.

The Company's non-financial assets and liabilities, including its long-lived assets and indefinite-lived intangible assets, are measured and subsequently adjusted, if necessary, to fair value on a non-recurring basis. The Company periodically performs routine reviews of triggering events and/or an impairment test, as applicable. Based on these procedures, the Company did not require an adjustment to fair value to be recorded in 2014 or 2013.

The Company's financial instruments, other than interest rate swap agreements and long-term debt, consist primarily of cash, restricted cash, accounts receivable and accounts payable. The carrying amounts of these financial instruments are estimated to approximate fair value due to the relatively short period of time to maturity for these instruments. As of December 31, 2014, interest rate swap agreements are carried at their fair value and measured on a recurring basis as follows (in thousands):

	Fair Value Measurements Using					
	Level 1		Level 2		Level 3	
Long-term interest rate swap liability [(a)]	$	—	$	2,742	$	—

As of December 31, 2013, interest rate swap agreements are carried at their fair value and measured on a recurring basis as follows (in thousands):

	Fair Value Measurements Using		
	Level 1	Level 2	Level 3
Long-term interest rate swap liability [(a)]	$ —	$ 1,005	$ —

(a) The fair value is determined using valuation models which rely on the expected LIBOR based yield curve and estimates of counterparty and the Company's non-performance risk. Because each of these inputs are directly observable or can be corroborated by observable market data, the Company has categorized these interest rate swaps as Level 2 within the fair value hierarchy.

Long-term debt is not carried at fair value, but measured on a recurring basis. The estimated fair values of the Company's long-term debt as of December 31, 2014 and December 31, 2013 are as follows (in thousands):

	December 31, 2014		December 31, 2013	
	Carrying Amount	Fair Value [(a)]	Carrying Amount	Fair Value [(a)]
Term Loan, due 2019 [(b)]	$ 614,590	$ 619,368	$ 618,122	$ 655,844
Notes, 8.75%, due 2019	300,000	301,890	300,000	318,000
Total	$ 914,590	$ 921,258	$ 918,122	$ 973,844

(a) The Company estimated fair value based on market prices of the Company's debt securities at the balance sheet date, which falls within Level 2 of the fair value hierarchy.

(b) The carrying amount of the Term Loan is net of the unamortized discount of $14.2 million and $17.1 million as of December 31, 2014 and December 31, 2013, respectively.

For a discussion of the fair value measurement of the Company's pension plan assets, *see* note (10) "Employee Benefit Plans—Plan Assets, Obligations and Funded Status—Qualified Pension Plan Assets".

(10) Employee Benefit Plans

The Company sponsors noncontributory qualified defined benefit pension plans ("qualified pension plans") and a post-retirement healthcare benefit plan which provide certain cash payments and medical, dental and life insurance benefits to eligible retired employees and their beneficiaries and covered dependents. These plans were created as part of the acquisition of the Northern New England operations from Verizon and mirrored the prior Verizon plans.

On August 2, 2014, the Company's collective bargaining agreements with two of its labor unions expired. On August 28, 2014, the Company informed the unions that the parties were at impasse and on that date implemented its final proposals at that time that included, among other changes, elimination of post-retirement healthcare benefits for represented employees and freezing the pension plan effective as of October 14, 2014. As further discussed in Note 20, on February 22, 2015, the collective bargaining agreements with these two unions were ratified. Given the uncertainty around the outcome of these labor negotiations that existed at December 31, 2014, the Company has not recognized the impact of the changes to the benefit plans available to represented employees implemented at impasse or those agreed to upon ratification of the collective bargaining agreements.

The Company maintains a qualified pension plan for represented employees. Participants in this plan accrue benefits in accordance with the respective plan document and contractual requirements in the collective bargaining agreements. The accrued benefits for active participants through October 14, 2014 were frozen and the pension plan was closed to new participants effective October 14, 2014. With ratification of the collective bargaining agreements on February 22, 2015, future benefit accruals for eligible pension plan participants will be made at 50% of the benefit accrual rate prior to the plan freeze on October 14, 2014 and will be capped after 30 years of total credited service.

Effective August 28, 2014, active represented employees were no longer eligible for post-retirement healthcare plan benefits. Employees who retire on or after August 28, 2014 are permitted to participate in the post-retirement healthcare plan providing benefits to non-represented employees (the "OPEB Plan"). Upon ratification of the collective bargaining agreements on February 22, 2015 and for 30 months thereafter, active represented employees who retire and meet the eligibility requirements and their spouses are eligible to receive certain monthly reimbursements of medical insurance premiums until the retiree reaches age 65 or dies.

During the fourth quarter of 2014, the Company amended the OPEB Plan to allow the retirees receiving benefits under a separate post-retirement healthcare plan for represented employees to participate in the OPEB Plan. Effective January 1, 2015, the represented retirees were transferred to the OPEB Plan and the post-retirement healthcare plan for represented employees was terminated.

The qualified pension plan, which covers non-represented employees, is frozen. Therefore, no new benefits are being earned by participants and no new participants are becoming eligible for benefits in this plan.

The Company makes contributions to the qualified pension plans to meet minimum funding requirements under the Employee Retirement Income Security Act of 1974, as amended ("ERISA") and has the ability to elect to make additional discretionary contributions. The post-retirement healthcare plans are unfunded and the Company funds the benefits that are paid. Annually, and as necessary, the Company remeasures the net liabilities of its qualified pension and other post-retirement healthcare benefits in accordance with the Compensation-Retirement Benefits Topic of the ASC.

Plan Assets, Obligations and Funded Status

A summary of plan assets, projected benefit obligation and funded status of the plans are as follows for the year ended December 31, 2014 and the year ended December 31, 2013 (in thousands):

	Qualified Pension Plans	
	Year Ended December 31, 2014	**Year Ended December 31, 2013**
Fair value of plan assets:		
Beginning fair value of plan assets	$ 175,242	$ 166,304
Actual return on plan assets	7,553	18,883
Plan settlements	(2,935)	(7,931)
Employer contributions	30,000	21,800
Benefits paid	(14,450)	(23,814)
Ending fair value of plan assets	**195,410**	**175,242**
Projected benefit obligation:		
Beginning projected benefit obligation	$ 328,776	$ 369,841
Service cost	14,760	18,543
Interest cost	15,367	14,934
Plan settlements	(2,935)	(7,931)
Benefits paid	(14,450)	(23,814)
Actuarial loss (gain)	66,698	(42,797)
Ending projected benefit obligation	**408,216**	**328,776**
Funded status	**$ (212,806)**	**$ (153,534)**
Accumulated benefit obligation	$ 366,649	$ 290,910
Amounts recognized in the consolidated balance sheet:		
Long-term liabilities	$ (212,806)	$ (153,534)
Net amount recognized in the consolidated balance sheet	**$ (212,806)**	**$ (153,534)**
Amounts recognized in accumulated other comprehensive loss:		
Net actuarial loss	$ (130,294)	$ (60,349)
Net amount recognized in accumulated other comprehensive loss	**$ (130,294)**	**$ (60,349)**

	Post-retirement Healthcare Plans			
	Year Ended December 31, 2014		Year Ended December 31, 2013	
Fair value of plan assets:				
Beginning fair value of plan assets	$	—	$	—
Employer contributions		6,097		3,704
Benefits paid		(6,097)		(3,704)
Ending fair value of plan assets		—		—
Projected benefit obligation:				
Beginning projected benefit obligation	$	590,435	$	621,443
Service cost		24,969		26,712
Interest cost		29,908		24,555
Plan amendment [(a)]		(46,277)		—
Benefits paid		(6,097)		(3,704)
Actuarial loss (gain)		148,434		(78,571)
Ending projected benefit obligation		**741,372**		**590,435**
Funded status	**$**	**(741,372)**	**$**	**(590,435)**
Amounts recognized in the consolidated balance sheet:				
Current liabilities	$	(6,021)	$	(5,701)
Long-term liabilities		(735,351)		(584,734)
Net amount recognized in the consolidated balance sheet	**$**	**(741,372)**	**$**	**(590,435)**
Amounts recognized in accumulated other comprehensive loss:				
Prior service credit	$	45,329	$	—
Net actuarial loss	$	(253,740)	$	(111,960)
Net amount recognized in accumulated other comprehensive loss	**$**	**(208,411)**	**$**	**(111,960)**

(a) In the fourth quarter of 2014, the Company amended its OPEB Plan to permit the former represented employees currently receiving post-retirement healthcare benefits to participate in that plan. Effective January 1, 2015, the former represented employees were transferred from their current plan to the OPEB Plan. The healthcare plan options available in the OPEB Plan contain higher deductibles, co-pays and co-insurance requirements than the healthcare plan options in the post-retirement healthcare plan for former represented employees. Accordingly, the Company recognized a gain as a result of the plan amendment, which will be accounted for as a prior service credit.

Qualified Pension Plan Assets. The investment objective for the qualified pension plan assets is to achieve an attractive risk-adjusted return over time that will provide for the payment of benefits in the future while minimizing the risk of loss of principal. The Company's strategy emphasizes a long-term equity orientation, global diversification and financial and operating risk controls. Both active and passive management investment approaches are employed depending on perceived market efficiencies and various other factors. Diversification targets of 75% equity securities and 25% fixed income securities for the represented employees plan seeks to minimize the concentration of market risk. For the qualified pension plan for the non-represented employees, the diversification target is 35% equity securities and 65% fixed income securities and is invested using primarily a liability driven investment strategy. The asset allocation at December 31, 2014 for the Company's qualified pension plan assets was as follows:

	Non-Represented Employees Plan	Represented Employees Plan	Total Qualified Pension Plans
Cash and cash equivalents [(a)]	0.6%	0.4%	0.4%
Equity securities [(b)]	31.3%	74.9%	68.3%
Fixed income securities	68.1%	24.7%	31.3%
Plan asset portfolio allocation at December 31, 2014	100.0%	100.0%	100.0%

(a) Cash and cash equivalents at December 31, 2014 include amounts pending settlement from the purchase or sale of equity or fixed income securities.

(b) Equity securities at December 31, 2014 include amounts held in hedged equity funds which primarily invest using a "fund of funds" strategy in multiple other equity funds.

The fair values for the qualified pension plan assets by asset category at December 31, 2014 are as follows (in thousands):

	Total	Level 1	Level 2	Level 3
Cash and cash equivalents	$ 848	$ 848	$ —	$ —
Equity securities (a)	133,446	79,896	53,199	351
Fixed income securities	61,116	26,803	34,313	—
Fair value of plan assets at December 31, 2014	**$ 195,410**	**$ 107,547**	**$ 87,512**	**$ 351**

(a) All Level 3 equity securities are amounts held in hedged equity funds.

The fair values for the qualified pension plan assets by asset category at December 31, 2013 were as follows (in thousands):

	Total	Level 1	Level 2	Level 3
Cash and cash equivalents	$ 1,677	$ 1,677	$ —	$ —
Equity securities (a)	107,683	69,381	26,591	11,711
Fixed income securities	65,882	28,942	36,940	—
Fair value of plan assets at December 31, 2013	**$ 175,242**	**$ 100,000**	**$ 63,531**	**$ 11,711**

(a) All Level 3 equity securities are amounts held in hedged equity funds.

Cash and cash equivalents include short-term investment funds, primarily in diversified portfolios of investment grade money market instruments and are valued using quoted market prices, and thus classified within Level 1 of the fair value hierarchy, as outlined in note (9) "Fair Value".

Equity securities include direct holdings of equity securities and units held in mutual funds that invest in equity securities of domestic and international corporations in a variety of industry sectors. The direct holdings and units held in publicly traded mutual funds are valued using quoted market prices and are classified within Level 1 of the fair value hierarchy. Fair values for units held in mutual funds that invest in equity securities that are not publicly traded are based on observable prices and are classified within Level 2 of the fair value hierarchy. The fair values of hedged equity funds are estimated using net asset value per share of the investments. The Company has the ability to redeem these investments at net asset value on a limited basis and thus has classified hedged equity funds within Level 3 of the fair value hierarchy. The Company is liquidating its positions in all its hedged equity funds per the terms of its investment agreements with such hedge equity funds.

Fixed income securities are investments in mutual funds that invest in corporate bonds, treasury securities and other debt instruments. These securities are expected to provide significant diversification benefits, in terms of asset volatility and pension funding volatility, in the portfolio and a stable source of income. Units held in publicly traded mutual funds that invest in fixed income securities are valued using quoted market prices and are classified within Level 1 of the fair value hierarchy. Fair values of mutual funds that invest in fixed income securities that are not publicly traded are based on observable prices and are classified within Level 2 of the fair value hierarchy.

A reconciliation of the beginning and ending balance of plan assets that are measured at fair value using significant unobservable inputs (Level 3) for the year ended December 31, 2013 and the year ended December 31, 2014 is as follows (in thousands):

	Hedged Equity Funds
Balance at December 31, 2012	**$ 11,869**
Actual gain on plan assets held	2,083
Purchases, sales and settlements, net	(2,241)
Balance at December 31, 2013	**$ 11,711**
Actual gain (loss) on plan assets held	145
Purchases, sales and settlements, net	(11,505)
Balance at December 31, 2014	**$ 351**

Net Periodic Benefit Cost. Components of the net periodic benefit cost related to the Company's qualified pension plans and post-retirement healthcare plans for the years ended December 31, 2014, 2013 and 2012 are as follows (in thousands):

	Qualified Pension Plans		
	Year Ended December 31, 2014	Year Ended December 31, 2013	Year Ended December 31, 2012
Service cost	$ 14,760	$ 18,543	$ 15,489
Interest cost	15,367	14,934	14,565
Expected return on plan assets	(13,525)	(12,462)	(13,268)
Amortization of actuarial loss	2,054	5,585	2,213
Plan settlement	671	1,683	445
Net periodic benefit cost	**$ 19,327**	**$ 28,283**	**$ 19,444**

	Post-retirement Healthcare Plans		
	Year Ended December 31, 2014	Year Ended December 31, 2013	Year Ended December 31, 2012
Service cost	$ 24,969	$ 26,712	$ 25,423
Interest cost	29,908	24,555	23,958
Expected return on plan assets	—	—	(33)
Amortization of prior service credit	(948)	—	—
Amortization of actuarial loss	6,654	7,398	6,194
Net periodic benefit cost	**$ 60,583**	**$ 58,665**	**$ 55,542**

Other Comprehensive Loss. Other pre-tax changes in plan assets and benefit obligations recognized in other comprehensive loss are as follows for the years ended December 31, 2014, 2013 and 2012, respectively, (in thousands):

	Qualified Pension Plans		
	Year Ended December 31, 2014	**Year Ended December 31, 2013**	**Year Ended December 31, 2012**
Amounts recognized in other comprehensive loss:			
Net (gain) loss arising during the period	$ 72,670	$ (49,218)	$ 48,632
Amortization or settlement recognition of net loss	(2,725)	(7,268)	(2,658)
Total amount recognized in other comprehensive loss	**$ 69,945**	**$ (56,486)**	**$ 45,974**
Estimated amounts that will be amortized from accumulated other comprehensive loss in the next fiscal year:			
Net actuarial loss	(7,421)	(2,156)	(4,870)
Total amount estimated to be amortized from accumulated other comprehensive loss in the next fiscal year	**$ (7,421)**	**$ (2,156)**	**$ (4,870)**

	Post-retirement Healthcare Plans		
	Year Ended December 31, 2014	**Year Ended December 31, 2013**	**Year Ended December 31, 2012**
Amounts recognized in other comprehensive loss:			
Prior service credit	(46,277)	—	—
Net (gain) loss arising during the period	148,434	(78,571)	42,405
Amortization of prior service credit	948	—	—
Amortization or settlement recognition of net loss	(6,654)	(7,398)	(6,194)
Total amount recognized in other comprehensive loss	**$ 96,451**	**$ (85,969)**	**$ 36,211**
Estimated amounts that will be amortized from accumulated other comprehensive loss in the next fiscal year:			
Prior service credit	5,782	—	—
Net actuarial loss	(14,389)	(3,694)	(8,941)
Total amount estimated to be amortized from accumulated other comprehensive loss in the next fiscal year	**$ (8,607)**	**$ (3,694)**	**$ (8,941)**

Assumptions

The determination of the net liability and the net periodic benefit cost recognized for the qualified pension plans and post-retirement healthcare plans by the Company are, in part, based on assumptions made by management. These assumptions include, among others, the discount rate applied to estimated future cash flows of the plans, the expected return on assets held by the qualified pension plans, certain demographic characteristics of the participants, such as expected retirement and mortality rates, and future inflation in healthcare costs. Certain assumptions, which include, among others, assumptions regarding future benefit increases and increases in the amount of post-retirement healthcare expenditures to be paid by the Company, reflect the Company's past practice of providing such increases to participants and therefore are considered a substantive plan under the Compensation—Retirement Benefits Topic of the ASC.

Projected Benefit Obligation Assumptions. The weighted average assumptions used in determining projected benefit obligations are as follows:

	December 31, 2014	December 31, 2013
Qualified Pension Plans:		
Discount rate	4.04%	4.92%
Rate of compensation increase (a)	3.00%	3.00%
Post-retirement Healthcare Plans:		
Discount rate	4.14%	4.98%
Rate of compensation increase (a)	4.00%	4.00%

(a) The rate of future increases in compensation assumption only applies to the plans for represented employees as plans for non-represented employees are frozen.

Net Periodic Benefit Cost Assumptions. The weighted average assumptions used in determining net periodic cost are as follows:

	Years Ended December 31,		
	2014	2013	2012
Qualified Pension Plans:			
Discount rate	4.92%	4.08%	4.63%
Expected return on plan assets (a)	7.66%	7.54%	7.52%
Rate of compensation increase (b)	3.00%	3.00%	3.00%
Post-retirement Healthcare Plans:			
Discount rate	4.98%	4.20%	4.66%
Rate of compensation increase (b)	4.00%	4.00%	4.00%
Healthcare cost trend rate assumed for participants under 65 (a)	7.90%	8.10%	8.40%
Healthcare cost trend rate assumed for participants over 65 (a)	7.90%	8.10%	8.40%
Rate that the cost trend rates ultimately declines to	4.50%	4.50%	4.50%
Year that the rates reach the terminal rate	2030	2030	2030

(a) The expected return on plan assets is the long-term rate-of-return the Company expects to earn on the plan assets. In developing the expected return on plan asset assumption, the Company evaluated historical investment performance, the plans' asset allocation strategies and return forecasts for each asset class and input from its advisors. Projected returns by such advisors were based on broad equity and fixed income indices. The expected return on plan assets is reviewed annually in conjunction with other plan assumptions and, if considered necessary, revised to reflect changes in the financial markets and the investment strategy. The investment strategy and target allocations of the qualified pension plans previously disclosed in "—Plan Assets, Obligations and Funded Status—Qualified Pension Plan Assets" herein were utilized.

(b) The rate of future increases in compensation assumption only applies to the plans for represented employees as plans for non-represented employees are frozen.

Post-retirement Healthcare Plan Sensitivity. A 1% change in the medical trend rate assumed for post-retirement healthcare benefits at December 31, 2014 would have the following effects (in thousands):

		Increase (Decrease)
1% increase in the medical trend rate:		
Effect on total service cost and interest cost components	$	14,152
Effect on benefit obligation	$	182,080
1% decrease in the medical trend rate:		
Effect on total service cost and interest cost components	$	(10,719)
Effect on benefit obligation	$	(138,046)

The impact of the Medicare Drug Act of 2003 subsidy on the post-retirement healthcare benefits at December 31, 2014 is as follows (in thousands):

		Increase (Decrease)
Change in projected benefit obligation	$	(35,554)
Change in each component of net periodic cost:		
Service cost	$	(1,356)
Interest cost		(1,641)
Amortization of loss		(2,149)
Total change in net periodic cost	**$**	**(5,146)**

Estimated Future Contributions and Benefit Payments

Legislation enacted in 2014 changed the method in determining the discount rate used for calculating a qualified pension plan's unfunded liability. This act contained a pension funding stabilization provision which allows pension plan sponsors to use higher interest rate assumptions when determining funded status and funding obligations. As a result, the Company's 2015 minimum required pension plan contribution is significantly lower than it would have been in the absence of this stabilization provision.

Estimated future employer contributions, benefit payments and Medicare prescription drug subsidies expected to offset the future post-retirement healthcare benefit payments as of December 31, 2014 are as follows (in thousands):

		Qualified Pension Plans		Post-retirement Healthcare Plans
Expected employer contributions for fiscal year 2015	$	16,190	$	6,021
Expected benefit payments for fiscal years:				
2015	$	6,311	$	6,021
2016		7,165		7,506
2017		8,244		9,199
2018		10,447		11,166
2019		11,347		13,439
2020-2024		81,870		109,814
Expected subsidy for fiscal years:				
2015			$	12
2016				28
2017				48
2018				76
2019				114
2020-2024				1,610

401(k) Savings Plans

The Company and its subsidiaries sponsor four voluntary 401(k) savings plans that, in the aggregate, cover all eligible Telecom Group employees and northern New England management employees, and one voluntary 401(k) savings plan that covers all eligible northern New England represented employees (collectively, "the 401(k) Plans"). Each 401(k) Plan year, the Company contributes an amount of matching contributions to the 401(k) Plans determined by the Company at its discretion for management employees and based on collective bargaining agreements for all other employees. For the 401(k) Plan years ended December 31, 2014, 2013 and 2012, the Company generally matched 100% of each employee's contribution up to 5% of compensation. Total Company contributions to all 401(k) Plans were $9.5 million, $9.9 million and $9.8 million for the years ended December 31, 2014, 2013 and 2012, respectively.

(11) Income Taxes

Income Tax Benefit (Expense)

Income tax benefit (expense) for the years ended December 31, 2014, 2013, 2012, respectively, consists of the following components (in thousands):

	Years Ended December 31,		
	2014	2013	2012
Current:			
Federal	$ —	$ (924)	$ —
State and local	(86)	(3,154)	(1,218)
Total current income tax (expense) benefit	**(86)**	**(4,078)**	**(1,218)**
Deferred:			
Federal	25,081	77,341	77,010
State and local	4,783	17,028	19,768
Total deferred income tax benefit	**29,864**	**94,369**	**96,778**
Total income tax benefit	**$ 29,778**	**$ 90,291**	**$ 95,560**

Total income tax (expense) benefit was different than that computed by applying United States federal income tax rates to (loss) income before income taxes for the years ended December 31, 2014, 2013 and 2012.

For the year ended December 31, 2014, the effective tax rate to calculate the tax benefit on $166.1 million of pre-tax loss was 17.9%. The rate differs from the 35% federal statutory rate primarily due to an increase in the valuation allowance offset by a benefit related to state taxes.

For the year ended December 31, 2013, the effective tax rate to calculate the tax benefit on $193.8 million of pre-tax loss was 46.6%. The rate differs from the 35% federal statutory rate primarily due to state taxes, as well as a decrease to the valuation allowance.

For the year ended December 31, 2012, the effective tax rate to calculate the tax benefit on $248.9 million of pre-tax loss was 38.4%. The rate differs from the 35% federal statutory rate primarily due to state taxes as well as favorable provision to return permanent adjustments, offset by an increase to the valuation allowance.

A reconciliation of the Company's statutory tax rate to its effective tax rate is presented below (in percentages):

	Years Ended December 31,		
	2014	2013	2012
Statutory federal income tax (benefit) rate	**(35.0)%**	**(35.0)%**	**(35.0)%**
State income tax (benefit) expense, net of federal income tax (benefit) expense	(2.1)	(4.8)	(4.8)
Restructuring charges	—	—	0.1
Other, net	0.3	0.6	(0.1)
Valuation allowance	18.9	(7.4)	1.4
Effective income tax (benefit) rate	**(17.9)%**	**(46.6)%**	**(38.4)%**

Deferred Income Taxes

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and deferred tax liabilities as of December 31, 2014 and 2013 are presented below (in thousands):

	December 31, 2014	December 31, 2013
Deferred tax assets:		
Federal and state tax loss carryforwards	$ 95,629	$ 76,570
Employee benefits	395,806	313,760
Allowance for doubtful accounts	3,613	5,290
Alternative minimum tax and other state credits	4,808	4,925
Capitalized restructuring costs	3,355	3,973
Accrued professional services	—	3,838
Deferred Revenue	3,896	1,719
Other, net	3,492	7,527
Total gross deferred tax assets	**510,599**	**417,602**
Deferred tax liabilities:		
Property, plant, and equipment	235,524	269,908
Goodwill and other intangible assets	33,003	36,121
Other, net	9,808	12,498
Total gross deferred tax liabilities	**278,335**	**318,527**
Net deferred tax assets (liabilities) before valuation allowance	**232,264**	**99,075**
Valuation allowance	(259,857)	(166,773)
Net deferred tax liabilities	**$ (27,593)**	**$ (67,698)**

At December 31, 2014, the Company had gross federal NOL carryforwards of $247.2 million after taking into consideration the NOL tax attribute reduction resulting from the Company's discharge of indebtedness upon emergence from Chapter 11 protection. The Company's remaining federal NOL carryforwards will expire from 2019 to 2034. At December 31, 2014, the Company had a net, after attribute reduction, state NOL deferred tax asset of $12.9 million. The Company's remaining state NOL carryforwards will expire from 2015 to 2034. At December 31, 2014, the Company had no alternative minimum tax credit carryover and had $4.8 million in state credit carryovers. Telecom Group completed an initial public offering on February 8, 2005, which resulted in an "ownership change" within the meaning of the United States federal income tax laws addressing NOL carryforwards, alternative minimum tax credits and other similar tax attributes. The Merger and the Company's emergence from Chapter 11 protection also resulted in ownership changes. As a result of these ownership changes, there are specific limitations on the Company's ability to use its NOL carryforwards and other tax attributes. The Company believes it can use the NOLs even with these restrictions in place based on its current income projections.

Valuation Allowance. At December 31, 2014 and 2013, the Company established a valuation allowance against its deferred tax assets of $259.9 million and $166.8 million, respectively, which consist of a $217.8 million and $136.4 million federal allowance, respectively, and a $42.1 million and $30.4 million state allowance, respectively. During 2014 and 2013, an increase in the Company's valuation allowance of approximately $58.2 million and a decrease of approximately $10.9 million, respectively, was allocated to accumulated other comprehensive loss in the consolidated balance sheets. During 2013, as a result of the Company's change in the estimated useful lives for certain fixed assets and change in realizability of certain state credits, the Company recognized a $14.8 million reduction in the beginning of the year valuation allowance that was allocated to continuing operations.

The following is activity in the Company's valuation allowance for the years ended December 31, 2014, 2013 and 2012, respectively (in thousands):

	Years Ended December 31,		
	2014	2013	2012
Balance, beginning of period	**$ (166,773)**	**$ (192,492)**	**$ (172,875)**
(Increase) decrease allocated to other comprehensive loss	(58,254)	10,884	(13,804)
(Increase) decrease allocated to continuing operations	(34,830)	14,835	(5,813)
Balance, end of period	**$ (259,857)**	**$ (166,773)**	**$ (192,492)**

Unrecognized Tax Benefits. As of December 31, 2014, the Company's total unrecognized tax benefits were $4.0 million, which were recorded as a reduction of the Company's federal and state NOL carryforwards. The total unrecognized tax benefits that, if recognized, would affect the effective tax rate were $3.8 million. The Company does not expect a significant increase or decrease in its unrecognized tax benefits during the next twelve months. A reconciliation of the beginning and ending amount of unrecognized tax benefits is as follows (in thousands):

Balance as of December 31, 2012	**$**	**3,785**
Additions for tax positions related to the current year		11
Additions for tax positions of prior years		1,059
Balance as of December 31, 2013	**$**	**4,855**
Additions for tax positions related to the current year		34
Additions for tax positions of prior years		205
Decrease for settlements with taxing authorities		(1,059)
Balance as of December 31, 2014	**$**	**4,035**

The Company recognizes any interest and penalties accrued related to unrecognized tax benefits in income tax expense. During the year ended December 31, 2014, the Company made payments of interest and penalties in the amount of $0.1 million. During the years ended December 31, 2013 and 2012, the Company did not make any payments of interest and penalties. There was nothing accrued in the consolidated balance sheets for the payment of interest and penalties at December 31, 2014 and 2013, respectively, as the remaining unrecognized tax benefits would only serve to reduce the Company's current federal and state NOL carryforwards, if ultimately recognized.

Income Tax Returns

The Company and its eligible subsidiaries file consolidated income tax returns in the United States federal jurisdiction and certain consolidated, combined and separate entity tax returns, as required, with various state and local governments. The Company is no longer subject to United States federal, state and local, or non-United States income tax examinations by tax authorities for years prior to 2010. NOL carryovers from closed tax years may be subject to examination by federal or state taxing authorities if utilized in a year open to examination. As of December 31, 2014 and 2013, respectively, the Company does not have any significant jurisdictional tax audits.

(12) Accumulated Other Comprehensive Loss

Components of accumulated other comprehensive loss, net of income tax, were as follows (in thousands):

In thousands		**December 31, 2014**		**December 31, 2013**
Accumulated other comprehensive loss, net of taxes:				
Fair value of interest rate swaps	$	(1,638)	$	(601)
Qualified pension and post-retirement healthcare plans		(316,985)		(159,178)
Total accumulated other comprehensive loss, net of taxes	**$**	**(318,623)**	**$**	**(159,779)**

Other comprehensive loss for the years ended December 31, 2014 and 2013, respectively, includes changes in the fair value of the Company's cash flow hedges, actuarial losses and prior service credits related to the qualified pension and post-retirement healthcare plans arising during the respective periods and amortization of these actuarial losses and prior service credits. For further detail of amounts recognized in other comprehensive loss related to the cash flow hedges, see note (8) "Interest Rate Swap Agreements" herein. For further detail of amounts recognized in other comprehensive loss related to the qualified pension and post-retirement healthcare plans, *see* note (10) "Employee Benefit Plans—Plan Assets, Obligations and Funded Status—Other Comprehensive Loss" herein.

The following table provides a reconciliation of adjustments reclassified from accumulated other comprehensive loss to the consolidated statement of operations (in thousands):

		Year Ended December 31, 2014
Employee benefits:		
Amortization of actuarial loss [a]	$	8,708
Amortization of prior service credit [a]		(948)
Plan settlement [a]		671
Total employee benefit amounts reclassified from accumulated other comprehensive loss		8,431
Tax expense		435
Total employee benefit amounts reclassified from accumulated other comprehensive loss, net	$	8,866

(a) These accumulated other comprehensive loss components are included in the computation of net periodic benefit cost. *See* note (10) "Employee Benefit Plans" for details.

Net actuarial losses are amortized over the estimated remaining years of service for the active participants in the respective plans. Prior service credits are amortized over eight years. There were no amounts reclassified from accumulated other comprehensive loss related to interest rate swaps for the years ended December 31, 2014 or 2013, respectively.

(13) Earnings Per Share

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

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

	Years Ended December 31,		
	2014	2013	2012
Weighted average number of common shares used for basic earnings per share [a]	26,449,408	26,189,668	25,987,483
Effect of potential dilutive shares [b]	—	—	—
Weighted average number of common shares and potential dilutive shares used for diluted earnings per share	**26,449,408**	**26,189,668**	**25,987,483**
Anti-dilutive shares outstanding at period-end that are excluded from the above reconciliation [c]	5,589,283	5,284,459	4,954,778

(a) Weighted average number of common shares used for basic earnings per share excludes 316,230, 278,681 and 245,602 weighted average shares of non-vested restricted stock as of the years ended December 31, 2014, 2013 and 2012, respectively. Non-vested restricted stock is included in common shares issued and outstanding in the consolidated balance sheets.

(b) Since the Company incurred a net loss for the years ended December 31, 2014, 2013 and 2012, all potentially dilutive securities are anti-dilutive for these periods and, therefore, are excluded from the determination of diluted earnings per share.

(c) Anti-dilutive shares outstanding at period-end that are excluded from the above reconciliation include warrants, non-vested restricted stock and stock options issued under the Long Term Incentive Plan (as defined hereinafter in note (15) "Stock-Based Compensation").

(14) Stockholders' Deficit

At December 31, 2014, 37,500,000 shares of common stock were authorized and 26,710,569 shares of common stock (including shares of non-vested restricted stock) and 3,582,402 warrants, each eligible to purchase one share of common stock, were outstanding.

The initial exercise price applicable to the warrants is $48.81 per share of common stock. The exercise price applicable to the warrants is subject to adjustment upon the occurrence of certain events described in the warrant agreement. The warrants may be exercised at any time on or before January 24, 2018.

(15) Stock-Based Compensation

Stock-based compensation expense recognized in the financial statements is as follows (in thousands):

	Years Ended December 31,		
	2014	2013	2012
Amounts charged against income, before income tax benefit	$ 4,274	$ 5,807	$ 4,055
Amount of related income tax benefit recognized in income	(1,714)	(2,326)	(1,656)
Total net loss impact	**$ 2,560**	**$ 3,481**	**$ 2,399**

At December 31, 2014, the Company had $3.3 million of stock-based compensation cost related to non-vested awards that will be recognized over a weighted average period of 1.83 years, all of which is related to awards granted under the FairPoint Communications, Inc. Amended and Restated 2010 Long Term Incentive Plan (the "Long Term Incentive Plan").

Long Term Incentive Plan

The Long Term Incentive Plan provides for grants of up to 5,674,277 shares of common stock awards, of which stock options and restricted stock awards and other types of equity awards can be granted. As of December 31, 2014, there are 2,877,285 shares available for grant under the Long Term Incentive Plan. Each stock option granted reduces the availability under the Long Term Incentive Plan by one share. Prior to the approval of the amendment and restatement of the Long Term Incentive Plan by the Company's stockholders on May 12, 2014, each restricted stock award granted reduced the availability under the Long Term Incentive Plan by one share and on or after May 12, 2014 each restricted stock award granted reduces the availability by 1.35 shares. Upon the exercise of each stock option or vesting of each restricted share award, one new share of common stock will be issued.

For the years ended December 31, 2014, 2013 and 2012, the Company has granted shares of restricted stock and stock options with one of the following vesting terms: (i) vest immediately; (ii) vest 100% on the first anniversary; (iii) vest over three equal annual installments, with one-third vesting on the first anniversary of the grant date and one-third on the second and third anniversaries thereafter or (iv) vest 25% immediately and 25% on the first, second and third anniversaries thereafter.

Stock Options. Stock options have a term of 10 years from the date of grant; however, vested stock options will generally expire 90 days after an employee's termination with the Company, unless the Company is in a blackout period. Stock option activity under the Long Term Incentive Plan is summarized as follows:

	Options Outstanding		Weighted Average Exercise Price Per Share	Weighted Average Remaining Contractual Life (in years)
Outstanding at December 31, 2011	**947,737**	**$**	**24.29**	
Granted [a]	347,880		4.82	
Exercised	(14,212)		4.51	
Forfeited	(87,783)		19.32	
Expired	(63,793)		23.96	
Outstanding at December 31, 2012	**1,129,829**	**$**	**18.95**	
Granted [a]	368,016		9.37	
Exercised	(18,750)		4.63	
Forfeited	(41,893)		11.95	
Expired	(38,079)		22.29	
Outstanding at December 31, 2013	**1,399,123**	**$**	**16.74**	
Granted [a]	462,374		13.31	
Exercised [b]	(51,050)		6.28	
Forfeited	(2,005)		4.31	
Expired	(33,597)		23.65	
Outstanding at December 31, 2014	**1,774,845**	**$**	**16.03**	**7.4**
Exercisable at December 31, 2014 [c]	**1,198,318**	**$**	**18.31**	**6.8**
Vested and Expected to Vest at December 31, 2014 [d]	**1,766,262**	**$**	**16.04**	**7.3**

(a) During the years ended December 31, 2014, 2013 and 2012, the weighted average grant date fair value of stock options granted was $3.2 million, $1.5 million and $0.7 million, respectively. For purposes of determining compensation expense, the grant date fair value per share of the stock options was estimated using the Black-Scholes option pricing model which requires the use of various assumptions including the expected life of the option, expected dividend rate, expected volatility and risk-free interest rate. Key assumptions used for determining the fair value of stock options granted were as follows:

	Years Ended December 31,		
	2014	**2013**	**2012**
Expected life [1]	5.5 - 6.5 years	5.5 - 6 years	5.75 - 6 years
Expected dividend [2]	—	—	—
Expected volatility [3]	51%	45%	45%
Risk-free interest rate [4]	1.63% - 2.19%	0.77% - 1.92%	0.82% - 1.21%

(1) The 5.5-year, 5.75-year, 6.0-year and 6.5-year expected lives (estimated period of time outstanding) of stock options granted were estimated using the ‘Simplified Method' which utilizes the midpoint between the vesting date and the end of the contractual term. This method was utilized for the stock options due to the lack of historical exercise behavior of the Company's employees.

(2) For all stock options granted during 2012, 2013 and 2014, no dividends are planned to be paid over the contractual term of the stock options resulting in the use of a zero expected dividend rate.

(3) The expected volatility rate is based on the observed historical volatilities of the Company's common stock and observed historical and implied volatilities of comparable companies, which were adjusted to account for the various differences between the comparable companies and the Company.

(4) The risk-free interest rate is specific to the date of grant and is based on the United States Treasury constant maturity market yield in effect at the time of the grant.

(b) During the years ended December 31, 2014 and 2013, the total intrinsic value of stock options that were exercised was $0.4 million and negligible, respectively.

(c) Based upon a fair market value of the common stock as of December 31, 2014 of $14.21 per share, the stock options that are exercisable have an aggregate intrinsic value (equal to the value of in-the-money stock options above their respective exercise price) of $2.6 million.

(d) Based upon a fair market value of the common stock as of December 31, 2014 of $14.21 per share, the stock options that have vested and are expected to vest have an aggregate intrinsic value (equal to the value of in-the-money stock options above their respective exercise price) of $4.3 million.

Based upon the respective grant fair value, the aggregate fair value of stock options that vested during the years ended December 31, 2014 , 2013, and 2012 was $2.9 million, $2.2 million, and $2.0 million, respectively.

Restricted Stock Awards. Restricted stock award activity under the Long Term Incentive Plan is summarized as follows:

	Awards Outstanding		Weighted Average Grant Date Fair Value Per Share
Non-vested at December 31, 2011	**351,998**	**$**	**18.26**
Granted [a]	30,000	$	5.51
Vested [b]	(116,202)		18.26
Forfeited	(21,550)		18.49
Non-vested at December 31, 2012	**244,246**	**$**	**16.65**
Granted [a]	184,610	$	9.46
Vested [b]	(157,318)	$	15.24
Forfeited	(6,883)	$	10.43
Non-vested at December 31, 2013	**264,655**	**$**	**12.64**
Granted (a)	216,586	$	13.21
Vested (b)	(249,205)	$	13.58
Non-vested at December 31, 2014	**232,036**	**$**	**12.15**

(a) The grant date fair value per share of the restricted stock awards under the Long Term Incentive Plan is calculated as the fair market value per share of the common stock on the date of grant. During the years ended December 31, 2014, 2013 and 2012, the weighted average grant date fair value of restricted stock awards granted was $2.9 million, $1.7 million, and $0.2 million, respectively.

(b) Based upon the respective grant date fair value, the aggregate fair value of restricted stock which vested during the year ended December 31, 2014, 2013 and 2012 was $3.4 million, $2.4 million and $2.1 million, respectively.

(16) Business Concentrations

Geographic

As of December 31, 2014, approximately 85% of the Company's access line equivalents were located in Maine, New Hampshire and Vermont. As a result of this geographic concentration, the 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 Company's services and a resulting loss of access line equivalents which could have a material adverse effect on the Company's business, financial condition, results of operations, liquidity and/or the market price of the Company's outstanding securities.

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

Labor

As of December 31, 2014, we employed a total of 3,052 employees, 1,914, or 63%, of whom were covered by 13 collective bargaining agreements. As of December 31, 2014, approximately 1,700 employees were covered by two collective bargaining agreements that expired during 2014. *See* note (10) "Employee Benefit Plans" and note (18) "Commitments and Contingencies" for additional information.

(17) Assets Held for Sale and Discontinued Operations

On November 28, 2012, the Company entered into an agreement to sell the capital stock of its Idaho-based operations to Blackfoot Telecommunications Group ("Blackfoot") of Missoula, Montana. The closing of the transaction was completed on January 31, 2013 for $30.5 million in gross cash proceeds. Eleven FairPoint employees joined the Blackfoot organization at closing. The Company recorded a gain, before $6.7 million of income taxes, of $16.7 million upon the closing of the transaction, which was reported within discontinued operations in the consolidated statement of operations for the year ended December 31, 2013. Due to differences between the book and tax basis of the Idaho-based operations, the gain reported on the sale for income tax purposes was $27.1 million.

The Idaho-based operations were immaterial to the financial results of the consolidated Company and therefore have not been segregated as discontinued operations in the consolidated statements of operations. Revenue and income before income taxes of the Idaho-based operations for the years ended December 31, 2013 and 2012 were as follows (in thousands):

Years Ended December 31,

	2013 (a)	2012
Revenue	$ 674	$ 7,874
Income before income taxes	477	3,813

(a) Reflects revenue and income before income taxes of the Idaho-based operations for the period of January 1, 2013 through the completion of the transaction on January 31, 2013.

(18) Commitments and Contingencies

(a) Leases

The Company currently leases real estate and fleet vehicles under capital and operating leases expiring through the year ending 2023. The Company accounts for leases using the straight-line method, which amortizes contracted total payments evenly over the lease term.

Future minimum lease payments under capital leases and non-cancelable operating leases as of December 31, 2014 are as follows (in thousands):

	Capital Leases	Operating Leases
Year ending December 31:		
2015	$ 700	$ 7,484
2016	586	5,568
2017	394	4,182
2018	161	2,294
2019	68	851
Thereafter	—	702
Total minimum lease payments	**$ 1,909**	**$ 21,081**
Less: interest and executory cost	(320)	
Present value of minimum lease payments	**1,589**	
Less: current installments	(627)	
Long-term obligations at December 31, 2014	**$ 962**	

Total rent expense was $13.3 million, $12.5 million and $12.5 million for the years ended December 31, 2014, 2013 and 2012, respectively.

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

(b) Legal Proceedings

From time to time, the Company is involved in litigation and regulatory proceedings arising out of its operations. The Company's management believes that it is not currently a party to any legal or regulatory proceedings, the adverse outcome of which, individually or in the aggregate, would have a material adverse effect on the Company's financial position or results of operations. Notwithstanding that the Company emerged from Chapter 11 protection on the Effective Date, one creditor's claim is still being litigated.

Notwithstanding the foregoing, the Company is a defendant in approximately 16 lawsuits filed by two long distance communications companies, who have collectively filed over 60 lawsuits arising from switched access charges for calls originating and terminating within the same wireless major trading area. At this time, an estimate of the impact, if any, of these lawsuits cannot be made.

(c) Restricted Cash

As of December 31, 2014, the Company had $0.7 million of restricted cash, which is restricted for regulatory purposes and is included in long-term restricted cash on the balance sheet. As of December 31, 2013, the Company had $1.2 million of restricted cash, of which $0.1 million was from the reserve for payment of outstanding bankruptcy claims (the "Cash Claims Reserve") established on the Effective Date, $0.4 million was reserved for broadband build-out in New Hampshire and $0.7 million was restricted for other purposes. During 2013, $0.6 million of the Cash Claims Reserve was released due to favorable resolution of claims, $2.8 million of restricted cash reserved for broadband build-out in Vermont was utilized and $2.9 million of restricted cash reserved for broadband build-out in New Hampshire was utilized.

(d) Magnitude of Bankruptcy Claims

Claims totaling $4.9 billion were filed with the Bankruptcy Court against the Company. As of February 27, 2015, through the claim resolution process, $3.8 billion of these claims have been settled and $1.1 billion of these claims have been disallowed by the Bankruptcy Court. Additionally, $15.2 million of these claims have been withdrawn by the respective creditors. There is one tax claimant that still has pending claims in the amount of $0.2 million that were remanded back to the state court or have been disallowed and have been appealed by the claimant for the second time.

(19) Quarterly Financial Information (Unaudited)

The quarterly information presented below represents selected quarterly financial results for the quarters ended March 31, June 30, September 30, and December 31, 2014 and 2013 (in thousands, except per share data).

2014:	**First Quarter**	**Second Quarter**	**Third Quarter**	**Fourth Quarter**
Revenue	$ 230,557	$ 225,597	$ 228,120	$ 217,122
Net loss	(32,237)	(22,680)	(37,778)	(43,624)
Loss per share:				
Basic	$ (1.22)	$ (0.86)	$ (1.43)	$ (1.65)
Diluted	$ (1.22)	$ (0.86)	$ (1.43)	$ (1.65)

2013:	**First Quarter**	**Second Quarter**	**Third Quarter**	**Fourth Quarter**
Revenue	$ 235,469	$ 234,500	$ 235,989	$ 233,396
Gain on sale of discontinued operations, net of tax	10,044	—	—	—
Net income (loss)	(47,485)	(43,108)	(8,960)	6,103
(Loss) earnings per share, basic:				
Continuing operations	$ (2.20)	$ (1.64)	$ (0.34)	$ 0.23
Discontinued operations	0.38	—	—	—
(Loss) earnings per share, basic	$ (1.82)	$ (1.64)	$ (0.34)	$ 0.23
(Loss) earnings per share, diluted:				
Continuing operations	$ (2.20)	$ (1.64)	$ (0.34)	$ 0.23
Discontinued operations	0.38	—	—	—
(Loss) earnings per share, diluted	$ (1.82)	$ (1.64)	$ (0.34)	$ 0.23

(20) Subsequent Events

On February 22, 2015, the Company entered into collective bargaining agreements with two of its labor unions in northern New England covering approximately 1,700 employees in the aggregate. The qualified defined benefit pension plan for represented employees is closed for new employees. For existing employees, past accruals have been frozen and future defined benefit accruals will be at 50% of prior rates and capped after 30 years of total credited service. In addition, the post-retirement healthcare plan for active represented employees has been eliminated, except for a transitional monthly stipend for eligible employees who elect to retire in the first 30 months of the contract period. To be eligible for the stipend, an employee must, among other criteria, have been granted a pension under the qualified defined benefit pension plan.

As a result of the changes to the Company's employee benefits resulting from the collective bargaining agreements, the pension and post-retirement healthcare plans will be remeasured and adjusted in the first quarter of 2015. The Company expects this to result in a decrease in the associated liabilities. Had the terms of the collective bargaining agreements relative to pension and post-retirement healthcare plans been used to value the Company's pension and post-retirement healthcare obligations at December 31, 2014, assuming all assumptions used to value the obligations on that date (including the discount rates) remained unchanged, the Company estimates that the accrued pension obligations on the consolidated balance sheet would have been lower by approximately $35 million to $45 million and the accrued post-retirement healthcare obligations on the consolidated balance sheet would have been lower by approximately $620 million to $640 million. In addition, the Company estimates a decrease in the deferred income tax asset associated with the qualified pension and post-retirement healthcare obligations, partially offset by a decrease in the valuation allowance, of approximately $30 million to $40 million as of December 31, 2014. The Company does not expect any impact on its net operating loss carryforwards. Estimates as of December 31, 2014 are presented for comparative purposes only. The obligations for the Company's qualified pension plan for represented employees and our post-retirement healthcare plan will each be remeasured and, therefore the actual results may differ materially from our December 31, 2014 estimates for reasons that may include, among others, changes in discount rates, changes in census data and/or changes in other assumptions.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

ITEM 9A. CONTROLS AND PROCEDURES

(a) Evaluation of Disclosure Controls and Procedures

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

Based upon this evaluation, our principal executive officer and principal financial officer have concluded that our disclosure controls and procedures were effective as of December 31, 2014.

(b) Changes in Internal Control Over Financial Reporting

We are committed to continuing to improve our internal control processes and will continue to review our financial reporting controls and procedures. As we continue to evaluate and work to improve our internal control over financial reporting, we may identify additional measures to address previous material weaknesses and other deficiencies. Our management, with the oversight of the audit committee of our board of directors, will continue to assess and take steps to enhance the overall design and capability of our control environment in the future.

There have been no changes in our internal control over financial reporting during the year ended December 31, 2014 that have materially affected or are reasonably likely to materially affect our internal control over financial reporting.

See "Item 8. Financial Statements and Supplementary Data" included elsewhere in this Annual Report for the Report of Management on Internal Control over Financial Reporting and the Report of Independent Registered Public Accounting Firm on Internal Control over Financial Reporting, each of which is incorporated herein by reference.

ITEM 9B. OTHER INFORMATION

Not applicable.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

The information required by Items 401, 405, 406 and 407(c)(3), (d)(4) and (d)(5) of Regulation S-K is incorporated herein by reference to our definitive proxy statement to be filed with the SEC pursuant to Regulation 14A under the Exchange Act.

ITEM 11. EXECUTIVE COMPENSATION

The information required by Item 402 and paragraph (e)(4) and (e)(5) of Item 407 of Regulation S-K is incorporated herein by reference to our definitive proxy statement to be filed with the SEC pursuant to Regulation 14A under the Exchange Act.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

The information required by Item 201(d) of Regulation S-K is incorporated herein by reference to "Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities—Securities Authorized for Issuance under Equity Compensation Plans" included elsewhere in this Annual Report. The information required by Item 403 of Regulation S-K is incorporated herein by reference to our definitive proxy statement to be filed with the SEC pursuant to Regulation 14A under the Exchange Act.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

The information required by Items 404 and 407(a) of Regulation S-K is incorporated herein by reference to our definitive proxy statement to be filed with the SEC pursuant to Regulation 14A under the Exchange Act.

ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

The information required by Item 9(e) of Schedule 14A is incorporated herein by reference to our definitive proxy statement to be filed with the SEC pursuant to Regulation 14A under the Exchange Act.

PART IV

ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES

(a) Financial Statements

The financial statements filed as part of this Annual Report are listed in the index to the financial statements under "Item 8. Financial Statements and Supplementary Data" included elsewhere in this Annual Report, which index to the financial statements is incorporated herein by reference.

(b) Exhibits

The exhibits filed as part of this Annual Report are listed in the index to exhibits found hereafter, which index to exhibits is incorporated herein by reference.

Table of Contents

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

FAIRPOINT COMMUNICATIONS, INC.

By: /s/ Paul H. Sunu Date: March 4, 2015
Paul H. Sunu, Chief Executive Officer and Director

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

By: /s/ Paul H. Sunu Date: March 4, 2015
Paul H. Sunu, Chief Executive Officer and Director
(Principal Executive Officer)

By: /s/ Ajay Sabherwal Date: March 4, 2015
Ajay Sabherwal, Executive Vice President and Chief Financial Officer
(Principal Financial Officer)

By: /s/ John T. Hogshire Date: March 4, 2015
John T. Hogshire, Senior Vice President and Controller
(Principal Accounting Officer)

By: /s/ Peter D. Aquino Date: March 4, 2015
Peter D. Aquino, Director

By: /s/ Dennis J. Austin Date: March 4, 2015
Dennis J. Austin, Director

By: /s/ Peter C. Gingold Date: March 4, 2015
Peter C. Gingold, Director

By: /s/ Edward D. Horowitz Date: March 4, 2015
Edward D. Horowitz, Chairman of the Board of Directors

By: /s/ Michael J. Mahoney Date: March 4, 2015
Michael J. Mahoney, Director

By: /s/ Michael K. Robinson Date: March 4, 2015
Michael K. Robinson, Director

By: /s/ David L. Treadwell Date: March 4, 2015
David L. Treadwell, Director

By: /s/ Wayne Wilson Date: March 4, 2015
Wayne Wilson, Director

Exhibit Index

Exhibit No.	Description
2.1	Third Amended Joint Plan of Reorganization Under Chapter 11 of the Bankruptcy Code.(1)
3.1	Ninth Amended and Restated Certificate of Incorporation of FairPoint.(2)
3.2	Second Amended and Restated By Laws of FairPoint.(2)
4.1	Warrant Agreement, dated as of January 24, 2011, by and between FairPoint and The Bank of New York Mellon.(3)
4.2	Specimen Stock Certificate.(2)
4.3	Specimen Warrant Certificate.(3)
4.4	Indenture, dated as February 14, 2013, among FairPoint, the subsidiary guarantors party thereto, U.S. Bank National Association, as trustee, and U.S. Bank National Association, as collateral agent. (18)
4.5	First Supplemental Indenture, dated as of September 16, 2013, among FairPoint, the subsidiary guarantors party thereto and U.S. Bank National Association, as trustee. (21)
10.1	Security Agreement, dated as of February 14, 2013, among FairPoint, the subsidiary guarantors party thereto and U.S. Bank National Association, as collateral agent.(18)
10.2	Pledge Agreement, dated as of February 14, 2013, among FairPoint, the subsidiary guarantors party thereto and U.S. Bank National Association, as collateral agent.(18)
10.3	Credit Agreement, dated as of February 14, 2013, among FairPoint, the lenders party thereto from time to time and Morgan Stanley Senior Funding, Inc., as administrative agent and letter of credit issuer. (18)
10.4	Pledge Agreement, dated as of February 14, 2013, made by FairPoint and the subsidiary guarantors party thereto in favor of Morgan Stanley Senior Funding, Inc., as administrative agent. (18)
10.5	Security Agreement, dated as of February 14, 2013, among FairPoint, the subsidiary guarantors party thereto and Morgan Stanley Senior Funding, Inc., as administrative agent. (18)
10.6	Continuing Guaranty, dated as of February 14, 2013, made by the subsidiary guarantors party thereto in favor of Morgan Stanley Senior Funding, Inc., as administrative agent. (18)
10.7	Registration Rights Agreement, dated as of January 24, 2011, by and between FairPoint Communications, Inc. and Angelo, Gordon & Co., L.P.(3)
10.8	FairPoint Litigation Trust Agreement, dated as of January 24, 2011.(3)
10.9	Form of Director Indemnity Agreement.(4)
10.10	Amended and Restated Tax Sharing Agreement, dated as of November 9, 2000, by and among FairPoint and its subsidiaries.(5)
10.11	Amended and Restated Employment Agreement, dated as of April 9, 2013, by and between FairPoint and Paul H. Sunu.†(20)
10.12	Employment Agreement, made and entered into as of January 22, 2013, by and between FairPoint and Ajay Sabherwal. † (19)
10.13	Employment Agreement, made and entered into as of January 22, 2013, by and between FairPoint and Shirley J. Linn. † (19)
10.14	Employment Agreement, made and entered into as of January 22, 2013, by and between FairPoint and Peter G. Nixon. † (19)
10.15	Employment Agreement, made and entered into as of November 15, 2012, by and between FairPoint and Anthony A. Tomae. † (19)
10.16	Employment Agreement, made and entered into as of July 1, 2011 by and between FairPoint and Kenneth W. Amburn. † (22)

Exhibit No.	Description
10.17	First Amendment to July 1, 2011 Employment Agreement, effective as of July 1, 2014, by and between FairPoint and Kenneth W. Amburn. † (24)
10.18	Employment Agreement, made and entered into as of July 1, 2014, by and between FairPoint and John J. Lunny. † (25)
10.19	Employment Agreement, made and entered into as of November 20, 2014, by and between FairPoint and Karen D. Turner. † *
10.20	FairPoint Communications, Inc. Amended and Restated 2010 Long Term Incentive Plan. † (23)
10.21	Form of Non-Incentive Stock Option Award Agreement for directors relating to the FairPoint Communications, Inc. Amended and Restated 2010 Long Term Incentive Plan. † (23)
10.22	Form of Restricted Share Award Agreement for directors relating to the FairPoint Communications, Inc. Amended and Restated 2010 Long Term Incentive Plan. † (23)
10.23	Form of Stock Option Award Agreement for employees relating to the FairPoint Communications, Inc. Amended and Restated 2010 Long Term Incentive Plan. † (23)
10.24	Form of Restricted Share Award Agreement for employees relating to the FairPoint Communications, Inc. Amended and Restated 2010 Long Term Incentive Plan. † (23)
10.25	Form of FairPoint Communications, Inc. Performance Share Award Agreement for Performance Period Beginning January 1, 2015 for employees relating to the FairPoint Communications, Inc. Amended and Restated 2010 Long Term Incentive Plan. † (26)
10.26	Form of Restricted Share Award Agreement relating to the FairPoint Communications, Inc. 2010 Long Term Incentive Plan.†(1)
10.27	Form of Non-Incentive Stock Option Award Agreement relating to the FairPoint Communications, Inc. 2010 Long Term Incentive Plan.†(1)
10.28	FairPoint Communications, Inc. Incentive Recoupment Policy. †(16)
10.29	Stipulation filed with the Maine Public Utilities Commission, dated December 12, 2007.(6)
10.30	Amended Stipulation filed with the Maine Public Utilities Commission dated December 21, 2007.(7)
10.31	Stipulation filed with the Vermont Public Service Board, dated January 8, 2008.(8)
10.32	Stipulation filed with the New Hampshire Public Utilities Commission, dated January 23, 2008.(9)
10.33	Post Filing Regulatory Settlement—New Hampshire, dated as of February 5, 2010, by and between FairPoint and New Hampshire Public Utilities Commission Staff Advocates.(1)
10.34	Post Filing Regulatory Settlement—Maine, dated as of February 9, 2010, by and among FairPoint, Maine Public Utilities Commission and Maine Office of the Public Advocate.(1)
10.35	Post Filing Regulatory Settlement—Vermont, dated as of February 5, 2010, by and between FairPoint and Vermont Department of Public Service.(1)
11	Statement Regarding Computation of Per Share Earnings (included in the financial statements contained in this Annual Report).
14.1	FairPoint Code of Business Conduct and Ethics.(14)
14.2	FairPoint Code of Ethics for Financial Professionals.(10)
21	Subsidiaries of FairPoint.*
23.1	Consent of Ernst & Young LLP.*
31.1	Certification as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.*
31.2	Certification as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.*
32.1	Certification required by 18 United States Code Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.‡

Exhibit No.	Description
32.2	Certification required by 18 United States Code Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.‡
99.1	Order, dated January 13, 2011, Confirming Debtors' Third Amended Joint Plan of Reorganization Under Chapter 11 of the Bankruptcy Code, dated as of December 29, 2010.(1)
99.2	Order of the Maine Public Utilities Commission, dated February 1, 2008.(11)
99.3	Order of the Vermont Public Service Board, dated February 15, 2008.(12)
99.4	Order of the New Hampshire Public Utilities Commission, dated February 25, 2008.(13)
99.5	FairPoint Insider Trading Policy, as revised October 30, 2014.*
101.INS	XBRL Instance Document.*
101.SCH	XBRL Taxonomy Extension Schema Document.*
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document.*
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document.*

*	Filed herewith.
†	Indicates a management contract or compensatory plan or arrangement.
‡	Pursuant to SEC Release No. 33-8238, this certification will be treated as "accompanying" this Annual Report on Form 10-K and not "filed" as part of such report for purposes of Section 18 of the Exchange Act, or otherwise subject to the liability of Section 18 of the Exchange Act and this certification will not be deemed to be incorporated by reference into any filing under the Securities Act or the Exchange Act, except to the extent that the registrant specifically incorporates it by reference.
(1)	Incorporated by reference to the Current Report on Form 8-K of FairPoint filed on January 14, 2011.
(2)	Incorporated by reference to the Registration Statement on Form 8-A of FairPoint filed on January 24, 2011.
(3)	Incorporated by reference to the Current Report on Form 8-K of FairPoint filed on January 25, 2011, Film Number 11544980.
(4)	Incorporated by reference to the Current Report on Form 8-K of FairPoint filed on January 25, 2011, Film Number 11544991.
(5)	Incorporated by reference to the Quarterly Report on Form 10-Q of FairPoint for the period ended September 30, 2000.
(6)	Incorporated by reference to the Current Report on Form 8-K of FairPoint filed on December 13, 2007.
(7)	Incorporated by reference to the Current Report on Form 8-K of FairPoint filed on April 3, 2008.
(8)	Incorporated by reference to the Current Report on Form 8-K of FairPoint filed on January 8, 2008.
(9)	Incorporated by reference to the Current Report on Form 8-K of FairPoint filed on January 24, 2008.
(10)	Incorporated by reference to the Annual Report on Form 10-K of FairPoint for the year ended December 31, 2004.
(11)	Incorporated by reference to the Current Report on Form 8-K of FairPoint filed on February 6, 2008.
(12)	Incorporated by reference to the Current Report on Form 8-K of FairPoint filed on February 21, 2008.
(13)	Incorporated by reference to the Current Report on Form 8-K of FairPoint filed on February 27, 2008.
(14)	Incorporated by reference to the Annual Report on Form 10-K of FairPoint for the year ended December 31, 2010.
(15)	Incorporated by reference to the Quarterly Report on Form 10-Q of FairPoint for the period ended June 30, 2011.
(16)	Incorporated by reference to the Quarterly Report on Form 10-Q of FairPoint for the period ended March 31, 2012.
(17)	Incorporated by reference to the Current Report on Form 8-K of FairPoint filed on November 13, 2012.
(18)	Incorporated by reference to the Current Report on Form 8-K of FairPoint filed on February 14, 2013.
(19)	Incorporated by reference to the Annual Report on Form 10-K of FairPoint for the year ended December 31, 2012.
(20)	Incorporated by reference to the Quarterly Report on Form 10-Q of FairPoint for the period ended March 31, 2013.
(21)	Incorporated by reference to the Quarterly Report on Form 10-Q of FairPoint for the period ended September 30, 2013.
(22)	Incorporated by reference to the Annual Report on Form 10-K of FairPoint for the year ended December 31,

2013.

(23) Incorporated by reference to the Current Report on Form 8-K of FairPoint filed on May 12, 2014.

(24) Incorporated by reference to the Current Report on Form 8-K of FairPoint filed on July 2, 2014.

(25) Incorporated by reference to the Quarterly Report on Form 10-Q of FairPoint for the period ended June 30, 2014.

(26) Incorporated by reference to the Current Report on Form 8-K of FairPoint filed on January 22, 2015.

EMPLOYMENT AGREEMENT

This EMPLOYMENT AGREEMENT (this "Agreement") is made and entered into as of this 20th day of November, 2014 (the "Commencement Date") by and between FairPoint Communications, Inc. (the "Company"), a Delaware corporation, and Karen D. Turner (the "Executive").

W I T N E S S E T H :

WHEREAS, the Company desires to employ Executive and to enter into this Agreement embodying the terms of such employment, and Executive desires to enter into this Agreement and to accept such employment, subject to the terms and provisions of this Agreement.

NOW, THEREFORE, in consideration of the promises and mutual covenants contained herein and for other good and valuable consideration, the receipt and sufficiency of which are mutually acknowledged, the Company and Executive hereby agree as follows:

Section 1. **Definitions**.

(a) "Accrued Obligations" shall mean (i) all accrued but unpaid Base Salary through the date of termination of Executive's employment, (ii) any unpaid or unreimbursed expenses incurred in accordance with Section 7 hereof, (iii) any benefits provided under the Company's employee benefit plans upon a termination of employment, in accordance with the terms contained therein, and (iv) any amounts payable under the FairPoint Communications, Inc. Amended and Restated 2010 Long Term Incentive Plan ("LTIP"), in accordance with the terms contained therein.

(b) "Cause" shall mean (i) Executive's act(s) of gross negligence or willful misconduct in the course of Executive's employment hereunder, (ii) willful failure or refusal by Executive to perform in any material respect her duties or responsibilities, (iii) misappropriation (or attempted misappropriation) by Executive of any assets or business opportunities of the Company or any other member of the Company Group, (iv) embezzlement or fraud committed (or attempted) by Executive, or at her direction, (v) Executive's conviction of, indictment for, or pleading "guilty" or " no contest" to, (x) a felony or (y) any other criminal charge that has, or could be reasonably expected to have, an adverse impact on the performance of Executive's duties to the Company or any other member of the Company Group or otherwise result in material injury to the reputation or business of the Company or any other member of the Company Group, (vi) any material violation by Executive of the policies of the Company, including but not limited to those relating to sexual harassment or business conduct, and those otherwise set forth in the manuals or statements of policy of the Company, which violation has a material adverse effect on the Company, or (vii) Executive's material breach of this Agreement or material breach of the Non-Interference Agreement.

(c) "Change in Control" shall have the same meaning as defined in the LTIP, as in effect on the date hereof; provided, however, that there shall be no provision for any threatened or anticipated Change in Control that does not actually occur.

(d) "Disability" shall mean any physical or mental disability or infirmity of Executive that prevents the performance of Executive's duties for a period of (i) ninety (90) consecutive days or (ii) one hundred twenty (120) non-consecutive days during any twelve (12) month period. Any question as to the existence, extent, or potentiality of Executive's Disability upon which Executive and the Company cannot agree shall be determined by a qualified, independent physician selected by the Company and approved by Executive (which approval shall not be unreasonably withheld). The determination of any such physician shall be final and conclusive for all purposes of this Agreement.

(e) "Good Reason" shall mean, without Executive's consent, (i) a material reduction in Base Salary set forth in Section 4(a) hereof or Annual Bonus opportunity referred to in Section 4(b) hereof, (ii) the relocation of Executive's principal place of employment (as provided in Section 3(b) hereof) more than fifty (50) miles from its current location, or (iii) any other material breach of a provision of this Agreement by the Company (other than a provision that is covered by clause (i) or (ii) above). Executive acknowledges and agrees that her exclusive remedy in the event of any breach of this Agreement shall be to assert Good Reason pursuant to the terms and conditions of Section 8(e) hereof. Notwithstanding the foregoing, during the Term of Employment, in the event that the Board reasonably believes that Executive may have engaged in conduct that could constitute Cause hereunder, the Board may, in its sole and absolute discretion, suspend Executive from performing her duties hereunder, and in no event shall any such suspension constitute an event pursuant to which Executive may terminate employment with Good Reason or otherwise constitute a breach hereunder; *provided*, that no such suspension shall alter the Company's obligations under this Agreement during such period of suspension.

(f) "Person" shall mean any individual, corporation, partnership, limited liability company, joint venture, association, joint-stock company, trust (charitable or non-charitable), unincorporated organization, or other form of business entity.

Section 2. **Acceptance and Term of Employment**.

The Company agrees to employ Executive, and Executive agrees to serve the Company, on the terms and conditions set forth herein. The term of employment (the "Term of Employment") shall commence on the Commencement Date and shall continue during the period ending on the close of business of the three (3) year anniversary of the Commencement Date, unless terminated sooner as provided in Section 8 or unless the Company has provided Executive with notice of its intention to renew the Term of Employment for a specific period of time, such notice to be given not less than one hundred twenty (120) days prior to the expiration of the three (3) year anniversary of the Commencement Date. Following the three year Term of Employment (or the applicable extension term, if any), the Executive shall continue on an at will basis until such time as the Company provides to Executive a written notice of termination pursuant to the provisions of Section 18 hereof.

Section 3. **Position, Duties, and Responsibilities; Place of Performance.**

(a) Position, Duties and Responsibilities. During the Term of Employment, Executive shall be employed and serve as Vice President, Strategy and Business Support of the Company (with such title subject to change from time to time as determined by the Board of Directors of the Company (the "Board") together with such other position or positions consistent with Executive's title as the Chief Executive Officer of the Company (the "CEO") shall specify from time to time), and shall have such duties and responsibilities commensurate with such title. Executive also agrees to serve, at the request of the CEO, as an officer of any other direct or indirect subsidiary of the Company (each such subsidiary being, together with the Company, a member of the "Company Group"), in each case without additional compensation.

(b) Performance. Executive shall devote her full business time, attention, skill, and best efforts to the performance of her duties under this Agreement and shall not engage in any other business or occupation during the Term of Employment, including, without limitation, any activity that (x) conflicts with the interests of the Company or any other member of the Company Group, (y) interferes with the proper and efficient performance of Executive's duties for the Company, or (z) interferes with Executive's exercise of judgment in the Company's best interests. Notwithstanding the foregoing, nothing herein shall preclude Executive from (i) serving, with the prior written consent of the CEO, as a member of the boards of directors or advisory boards (or their equivalents in the case of a non-corporate entity) of non-competing businesses and charitable organizations, (ii) engaging in charitable activities and community affairs, and (iii) managing personal investments and affairs; *provided*, *however*, that the activities set out in clauses (i), (ii) and (iii) shall be limited by Executive so as not to interfere, individually or in the aggregate, with the performance of her duties and responsibilities hereunder. Executive's principal place of employment shall be in Charlotte, North Carolina, although Executive understands and agrees that she may be required to travel from time to time for business reasons.

Section 4. **Compensation**.

During the Term of Employment, Executive shall be entitled to the following compensation:

(a) Base Salary. Executive shall be paid an annualized base salary (the "Base Salary"), payable in accordance with the regular payroll practices of the Company, of not less than Two Hundred Thousand Dollars ($200,000), with increases, if any, as may be approved in writing by the Compensation Committee of the Board of Directors (the "Compensation Committee").

(b) Annual Bonus. Executive shall be eligible for an annual incentive bonus award (the "Annual Bonus") through participation in the Company's Annual Incentive Plan in respect of each fiscal year during the Term of Employment, with the actual Annual Bonus payable being based upon the level of achievement of annual Company and individual performance objectives for such fiscal year, as determined by the Compensation Committee and communicated to Executive. The Annual Bonus shall be paid to Executive at the same time as annual bonuses are generally payable to other senior executives of the Company subject to Executive's continuous employment through the payment date.

(c) Other Plans. Executive shall be eligible for consideration by the Compensation Committee to participate in the benefit and other plans made available generally to senior executives of the Company, including but not limited to the LTIP, subject to the terms and conditions as may be established from time to time by the Compensation Committee and communicated to Executive. Upon the occurrence of a Change in Control, all of Executive's unvested benefits under the LTIP shall be accelerated and shall vest in full.

(d) Indemnification. The Company shall indemnify Executive and hold Executive harmless in connection with the defense of any lawsuit or other claim to which she is made a party by reason of being an officer or employee of the Company, to the fullest extent permitted by the laws of the State of Delaware, as in effect at the time of the subject act or omission; *provided* that any settlement, consent to judgment, or similar action taken by Executive without the prior written consent of the Company in respect of any such lawsuit or other claim shall not be subject to indemnification hereunder.

Section 5. **Employee Benefits**.

During the Term of Employment, Executive shall be entitled to participate in health, insurance, retirement, and other benefits provided generally to similarly situated employees of the Company. Executive shall also be entitled to the same number of holidays, vacation days, and sick days, as well as any other benefits, in each case as are generally allowed to similarly situated employees of the Company in accordance with the Company policy as in effect from time to time. Nothing contained herein shall be construed to limit the Company's ability to amend, suspend, or terminate any employee benefit plan or policy at any time without providing Executive notice, and the right to do so is expressly reserved.

Section 6. **Key-Man Insurance**.

At any time during the Term of Employment, the Company shall have the right to insure the life of Executive for the sole benefit of the Company, in such amounts, and with such terms, as it may determine. All premiums payable thereon shall be the obligation of the Company. Executive shall have no interest in any such policy, but agrees to cooperate with the Company in procuring such insurance by submitting to physical examinations, supplying all information required by the insurance company, and executing all necessary documents, provided that no financial obligation is imposed on Executive by any such documents.

Section 7. **Reimbursement of Business Expenses**.

Executive is authorized to incur reasonable business expenses in carrying out her duties and responsibilities under this Agreement, and the Company shall promptly reimburse her for all such reasonable business expenses, subject to documentation in accordance with the Company's policy, as in effect from time to time.

Section 8. **Termination of Employment.**

(a) General. The Term of Employment shall terminate upon the earliest to occur of (i) Executive's death, (ii) a termination by reason of a Disability, (iii) a termination by the Company with or without Cause, (iv) a termination by Executive with or without Good Reason, and (v) delivery by the Company to Executive of a termination notice at any time subsequent to the close of business on the last day of the Term of Employment. Upon any termination of Executive's employment for any reason, except as may otherwise be requested by the Company in writing and agreed upon in writing by Executive, Executive shall resign from any and all directorships, committee memberships, and any other positions Executive holds with the Company or any other member of the Company Group. Notwithstanding anything herein to the contrary, the payment (or commencement of a series of payments) hereunder of any nonqualified deferred compensation (within the meaning of Section 409A of the Internal Revenue Code of 1986, as amended, and the rules and regulations promulgated thereunder (the "Code")) upon a termination of employment shall be delayed until such time as Executive has also undergone a "separation from service" as defined in Treas. Reg. 1.409A-1(h), at which time such nonqualified deferred compensation (calculated as of the date of Executive's termination of employment hereunder) shall be paid (or commence to be paid) to Executive on the schedule set forth in this Section 8 as if Executive had undergone such termination of employment (under the same circumstances) on the date of her ultimate "separation from service."

(b) Termination Due to Death or Disability. Executive's employment shall terminate automatically upon her death. The Company may terminate Executive's employment immediately upon the occurrence of a Disability, such termination to be effective upon Executive's receipt of written notice of such termination. Upon Executive's death or in the event that Executive's employment is terminated due to her Disability, Executive or her estate or her beneficiaries, as the case may be, shall be entitled to:

(i) The Accrued Obligations;

(ii) Any unpaid Annual Bonus in respect of any completed fiscal year that has ended prior to the date of such termination, which amount shall be paid at such time annual bonuses are paid to other senior executives of the Company, but in no event later than the date that is 2½ months following the last day of the fiscal year in which such termination occurred.

Following Executive's death or a termination of Executive's employment by reason of a Disability, except as set forth in this Section 8(b), Executive shall have no further rights to any compensation or any other benefits under this Agreement.

(c) Termination by the Company with Cause.

(i) The Company may terminate Executive's employment at any time with Cause, effective upon Executive's receipt of written notice of such termination; *provided*, *however*, that with respect to any Cause termination relying on clause

(ii) of the definition of Cause set forth in Section 1(b) hereof, to the extent that such act or acts or failure or failures to act are curable, Executive shall be given not less than ten (10) days' written notice by the Board of its intention to terminate her with Cause, such notice to state in detail the particular act or acts or failure or failures to act that constitute the grounds on which the proposed termination with Cause is based, and such termination shall be effective at the expiration of such ten (10) day notice period unless Executive has fully cured such act or acts or failure or failures to act that give rise to Cause during such period.

(ii) In the event that the Company terminates Executive's employment with Cause, she shall be entitled only to the Accrued Obligations. Following such termination of Executive's employment with Cause, except as set forth in this Section 8(c)(ii), Executive shall have no further rights to any compensation or any other benefits under this Agreement.

(d) Termination by the Company without Cause or upon Delivery of a Termination Notice from the Company to the Executive. The Company may terminate Executive's employment at any time without Cause, effective upon Executive's receipt of written notice of such termination, or by delivery to Executive of a written notice of termination in accordance with the provisions of Section 2 above.

(i) In the event that Executive's employment is terminated by the Company without Cause (other than due to death or Disability) or upon the Company's delivery of a termination notice, in either case prior to the expiration of the Term of Employment (for example, the termination must be effected or the termination notice must be delivered to Executive prior to the expiration of three (3) years from the Commencement Date), Executive shall be entitled to:

(A) The Accrued Obligations, paid as soon as practicable following Executive's termination of employment, but in no event later than the date that is 2½ months following the last day of the fiscal year in which such termination occurred;

(B) Any unpaid Annual Bonus in respect of any completed fiscal year that has ended prior to the date of such termination, which amount shall be paid at such time annual bonuses are paid to other senior executives of the Company, but in no event later than the date that is 2½ months following the last day of the fiscal year in which such termination occurred;

(C) An amount equal to the sum of:

(x) two (2) times the amount of Executive's then-current Base Salary, paid as soon as practicable following Executive's termination of employment, but in no event later than the date that is 2½ months following the last day of the fiscal year in which such termination occurred;

(y) two (2) times the amount of Executive's average Annual Bonus where such average is determined by reference to the actual Annual Bonus paid to Executive for the immediately two (2) preceding fiscal years, paid as soon as practicable following Executive's termination of employment, but in no event later than the date that is 2½ months following the last day of the fiscal year in which such termination occurred;

(z) the cost of continued health and disability insurance coverage for Executive and her covered dependents during the twenty four (24) months following such termination, based on the monthly cost of continuation coverage under COBRA as of the date of termination, as applicable, under the applicable Company benefit plans, such amounts to be paid in accordance with the Company's regular payroll practices; and

(D) if any such termination is within six (6) months before or six (6) months after a Change in Control, the amount payable under Section 8(d)(i)(C)(y) shall be adjusted to the greater of (A) the amount payable under Section 8(d)(i)(C)(y), or (B) two (2) times the amount of Executive's target Annual Bonus for the current fiscal year. To the extent that the amount payable under this Section 8(d)(i)(D) is greater than the amount payable under Section 8(d)(i)(C), the deficiency shall be paid at the effective time of the occurrence of a Change in Control.

(ii) In the event that Executive's employment is terminated by the Company without Cause (other than due to death or Disability) or upon the Company's delivery of a termination notice, in either case after the expiration of the Term of Employment (for example, the termination is effected or the termination notice is delivered to Executive subsequent to the expiration of three (3) years from the Commencement Date, herein an "At Will Termination"), Executive shall be entitled to the Accrued Obligations only; provided, however, if the At Will Termination is effected within six (6) months prior to a Change in Control, Executive shall be entitled to each of the payments and benefits described in clauses (B), (C) and (D) above.

Notwithstanding the foregoing, the payments and benefits described in clauses (B), (C) and (D) above shall immediately terminate, and the Company shall have no further obligations to Executive with respect thereto, in the event that Executive breaches any provision of the Non-Interference Agreement.

Following such termination of Executive's employment by the Company without Cause or upon the Company's delivery to Executive of a termination notice, except as set forth in this Section 8(d), Executive shall have no further rights to any compensation or any other benefits under this Agreement.

For the avoidance of doubt, Executive's sole and exclusive remedy upon a termination of employment by the Company without Cause or upon the expiration of the Term of Employment, in either case following the Company's delivery to Executive of a termination notice which termination is effected or where the termination notice is delivered prior to the expiration of the date that is three (3) years subsequent to the Commencement Date, shall be receipt of the Severance Benefits and the Accrued Obligations.

(e) Termination by Executive with Good Reason. Executive may terminate her employment with Good Reason by providing the Company thirty (30) days' written notice setting forth in reasonable specificity the event that constitutes Good Reason, which written notice, to be effective, must be provided to the Company within sixty (60) days of the initial occurrence of such event. During such thirty (30) day notice period, the Company shall have a cure right (if curable), and if not cured within such period, Executive's termination will be effective upon the expiration of such cure period. Executive shall be entitled to the same payments and benefits as provided in Section 8(d) hereof for a termination by the Company without Cause, subject to the same conditions on payment and benefits as described in Section 8(d) hereof; provided, however, that Executive shall also be entitled to accelerated vesting of the next tranche of benefits payable under the LTIP. Following such termination of Executive's employment by Executive with Good Reason, except as set forth in this Section 8(e), Executive shall have no further rights to any compensation or any other benefits under this Agreement. For the avoidance of doubt, Executive's sole and exclusive remedy upon a termination of employment with Good Reason shall be receipt of the amounts as set forth in this Section 8(e).

(f) Termination by Executive without Good Reason or upon Delivery by Executive to Company of a Termination Notice. Executive may terminate her employment without Good Reason by providing the Company thirty (30) days' written notice of such termination or by delivery of a written termination notice in accordance with the provisions of Section 2 above. In the event of a termination of employment by Executive under this Section 8(f), Executive shall be entitled only to the Accrued Obligations. In the event of termination of Executive's employment without Good Reason, the Company may, in its sole and absolute discretion, by written notice accelerate such date of termination without changing the characterization of such termination as a termination by Executive without Good Reason. Following such termination of Executive's employment by Executive without Good Reason or upon Executive's delivery to Company of a termination notice, except as set forth in this Section 8(f), Executive shall have no further rights to any compensation or any other benefits under this Agreement.

(g) Release. Notwithstanding any provision herein to the contrary, the payment of any amount or provision of any benefit pursuant to subsection (b), (d), or (e) of this Section 8 (other than the Accrued Obligations) (collectively, the "Severance Benefits") shall be conditioned upon Executive's execution, delivery to the Company, and non-revocation of a release of claims (under a release of claims form, the form and content of which are acceptable to the Company, and the expiration of any revocation period contained in such release of claims) within sixty (60) days following the date of Executive's termination of employment hereunder. If Executive fails to execute the release of claims in such a timely manner so as to permit any revocation period to expire prior to the end of such sixty (60) day period, or timely revokes her acceptance of such release following its execution, Executive shall not be entitled to any of the Severance Benefits. Further, to the extent that any of the Severance Benefits constitutes "nonqualified deferred compensation" for purposes of Section 409A of the Code, any payment of any amount or provision of any benefit otherwise scheduled to occur prior to the sixtieth (60^{th}) day following the date of Executive's termination of employment hereunder, but for the condition on executing the release of claims as set forth herein, shall not be made until the first regularly scheduled payroll date following such sixtieth (60^{th}) day, after which any remaining Severance Benefits shall thereafter be provided to Executive according to the applicable schedule set forth herein. For the avoidance of doubt, in the event of a termination due to Executive's death or Disability, Executive's obligations herein to execute and not revoke the release of claims may be satisfied on her behalf by her estate or a person having legal power of attorney over her affairs.

Section 9. **Non-Interference Agreement**.

As a condition to receipt of the benefits set forth under this Agreement, to which Executive acknowledges are incremental to the benefits and compensation available to Executive immediately prior to the Commencement Date, Executive shall have executed and delivered to the Company a non-interference agreement (the "Non-Interference Agreement") in the form of the Confidentiality, Non-Interference and Invention Assignment Agreement attached hereto as Exhibit A. The parties hereto acknowledge and agree that this Agreement and the Non-Interference Agreement shall be considered separate contracts.

Section 10. **Representations and Warranties of Executive**.

Executive represents and warrants to the Company that:

(a) Executive is entering into this Agreement voluntarily and that her employment hereunder and compliance with the terms and conditions hereof will not conflict with or result in the breach by her of any agreement to which she is a party or by which she may be bound;

(b) Executive has not violated, and in connection with her employment with the Company will not violate, any non-solicitation, non-competition, or other similar covenant or agreement of a prior employer by which she is or may be bound; and

(c) in connection with her employment with the Company, Executive will not use any confidential or proprietary information she may have obtained in connection with employment with any prior employer.

Section 11. **Taxes**.

The Company may withhold from any payments made under this Agreement all applicable taxes, including but not limited to income, employment, and social insurance taxes, as shall be required by law. Executive acknowledges and represents that the Company has not provided any tax advice to her in connection with this Agreement and that she has been advised by the Company to seek tax advice from her own tax advisors regarding this Agreement and payments that may be made to her pursuant to this Agreement, including specifically, the application of the provisions of Section 409A of the Code to such payments.

Section 12. **Mitigation; Company Recovery Rights**.

Executive shall not be required to mitigate the amount of any payment provided pursuant to this Agreement by seeking other employment or otherwise, and the amount of any payment provided for pursuant to this Agreement shall not be reduced by any compensation earned as a result of Executive's other employment or otherwise. Any payment pursuant to this Agreement shall, however, be subject to any rights the Company may have under Section 304(b) of the Sarbanes-Oxley Act of 2002 or Section 954 of the Dodd-Frank Wall Street Reform and Consumer Protection Act.

Section 13. **Additional Section 409A Provisions**.

Notwithstanding any provision in this Agreement to the contrary:

(a) Any payment otherwise required to be made hereunder to Executive at any date as a result of the termination of Executive's employment shall be delayed for such period of time as may be necessary to meet the requirements of Section 409A(a)(2)(B)(i) of the Code (the "Delay Period"). On the first business day following the expiration of the Delay Period, Executive shall be paid, in a single cash lump sum, an amount equal to the aggregate amount of all payments delayed pursuant to the preceding sentence, and any remaining payments not so delayed shall continue to be paid pursuant to the payment schedule set forth herein.

(b) Each payment in a series of payments hereunder shall be deemed to be a separate payment for purposes of Section 409A of the Code.

(c) To the extent that any right to reimbursement of expenses or payment of any benefit in-kind under this Agreement constitutes nonqualified deferred compensation (within the meaning of Section 409A of the Code), (i) any such expense reimbursement shall be made by the Company no later than the last day of the taxable year following the taxable year in which such expense was incurred by Executive, (ii) the right to reimbursement or in-kind benefits shall not be subject to liquidation or exchange for another benefit, and (iii) the amount of expenses eligible for reimbursement or in-kind benefits provided during any taxable year shall not affect the expenses eligible for reimbursement or in-kind benefits to be provided in any other taxable year; *provided*, that the foregoing clause shall not be violated with regard to expenses reimbursed under any arrangement covered by Section 105(b) of the Code solely because such expenses are subject to a limit related to the period the arrangement is in effect.

(d) While the payments and benefits provided hereunder are intended to be structured in a manner to avoid the implication of any penalty taxes under Section 409A of the Code, in no event whatsoever shall the Company or any member of the Company Group be liable for any additional tax, interest, or penalties that may be imposed on Executive as a result of Section 409A of the Code or any damages for failing to comply with Section 409A of the Code (other than for withholding obligations or other obligations applicable to employers, if any, under Section 409A of the Code).

Section 14. **Successors and Assigns; No Third-Party Beneficiaries**.

(a) The Company. This Agreement shall inure to the benefit of the Company and its respective successors and assigns. Neither this Agreement nor any of the rights, obligations, or interests arising hereunder may be assigned by the Company to a Person (other than another member of the Company Group, or its or their respective successors) without Executive's prior written consent (which shall not be unreasonably withheld, delayed, or conditioned); *provided*, *however*, that in the event of a sale of all or substantially all of the assets of the Company, the Company may provide that this Agreement will be assigned to, and assumed by, the acquiror of such assets, it being agreed that in such circumstances, Executive's consent will not be required in connection therewith.

(b) Executive. Executive's rights and obligations under this Agreement shall not be transferable by Executive by assignment or otherwise, without the prior written consent of the Company; *provided*, *however*, upon Executive's death, all amounts then payable to Executive hereunder shall be paid in accordance with the terms of this Agreement to Executive's devisee, legatee, or other designee, or if there be no such designee, to Executive's estate.

(c) No Third-Party Beneficiaries. Except as otherwise set forth in Section 8(b) or Section 14(b) hereof, nothing expressed or referred to in this Agreement will be construed to give any Person other than the Company, the other members of the Company Group, and Executive any legal or equitable right, remedy, or claim under or with respect to this Agreement or any provision of this Agreement.

Section 15. **Waiver and Amendments**.

Any waiver, alteration, amendment, or modification of any of the terms of this Agreement shall be valid only if made in writing and signed by each of the parties hereto; *provided*, *however*, that any such waiver, alteration, amendment, or modification must be consented to on the Company's behalf by the Board. No waiver by either of the parties hereto of their rights hereunder shall be deemed to constitute a waiver with respect to any subsequent occurrences or transactions hereunder unless such waiver specifically states that it is to be construed as a continuing waiver.

Section 16. **Severability.**

If any covenants or such other provisions of this Agreement are found to be invalid or unenforceable by a final determination of a court of competent jurisdiction, (a) the remaining terms and provisions hereof shall be unimpaired, and (b) the invalid or unenforceable term or provision hereof shall be deemed replaced by a term or provision that is valid and enforceable and that comes closest to expressing the intention of the invalid or unenforceable term or provision hereof.

Section 17. **Governing Law and Jurisdiction.**

THIS AGREEMENT IS GOVERNED BY AND IS TO BE CONSTRUED UNDER THE LAWS OF THE STATE OF NORTH CAROLINA, WITHOUT REGARD TO CONFLICT OF LAWS RULES. ANY DISPUTE OR CLAIM ARISING OUT OF OR RELATING TO THIS AGREEMENT OR CLAIM OF BREACH HEREOF SHALL BE BROUGHT EXCLUSIVELY IN FEDERAL COURT IN THE STATE OF NORTH CAROLINA. BY EXECUTION OF THE AGREEMENT, THE PARTIES HERETO, AND THEIR RESPECTIVE AFFILIATES, CONSENT TO THE EXCLUSIVE JURISDICTION OF SUCH COURT, AND WAIVE ANY RIGHT TO CHALLENGE JURISDICTION OR VENUE IN SUCH COURT WITH REGARD TO ANY SUIT, ACTION, OR PROCEEDING UNDER OR IN CONNECTION WITH THE AGREEMENT. EACH PARTY TO THIS AGREEMENT ALSO HEREBY WAIVES ANY RIGHT TO TRIAL BY JURY IN CONNECTION WITH ANY SUIT, ACTION, OR PROCEEDING UNDER OR IN CONNECTION WITH THIS AGREEMENT.

Section 18. **Notices.**

(a) Place of Delivery. Every notice or other communication relating to this Agreement shall be in writing, and shall be mailed to or delivered to the party for whom or which it is intended at such address as may from time to time be designated by it in a notice mailed or delivered to the other party as herein provided; *provided*, that unless and until some other address be so designated, all notices and communications by Executive to the Company shall be mailed or delivered to the Company at its principal executive office, Attention: General Counsel, and all notices and communications by the Company to Executive may be given to Executive personally or may be mailed to Executive at Executive's last known address, as reflected in the Company's records.

(b) Date of Delivery. Any notice so addressed shall be deemed to be given (i) if delivered by hand, on the date of such delivery, (ii) if mailed by courier or by overnight mail, on the first business day following the date of such mailing, and (iii) if mailed by registered or certified mail, on the third business day after the date of such mailing.

Section 19. **Section Headings.**

The headings of the sections and subsections of this Agreement are inserted for convenience only and shall not be deemed to constitute a part thereof or affect the meaning or interpretation of this Agreement or of any term or provision hereof.

Section 20. **Entire Agreement.**

This Agreement, together with any exhibits attached hereto, constitutes the entire understanding and agreement of the parties hereto regarding the employment of Executive. This Agreement supersedes all prior negotiations, discussions, correspondence, communications, understandings, and agreements between the parties relating to the subject matter of this Agreement.

Section 21. **Survival of Operative Sections.**

Upon any termination of Executive's employment, the provisions of Section 8 through Section 22 of this Agreement (together with any related definitions set forth in Section 1 hereof) shall survive to the extent necessary to give effect to the provisions thereof.

Section 22. **Counterparts.**

This Agreement may be executed in two or more counterparts, each of which shall be deemed to be an original but all of which together shall constitute one and the same instrument. The execution of this Agreement may be by actual or facsimile signature.

* * *

[Signatures to appear on the following page.]

IN WITNESS WHEREOF, the undersigned have executed this Agreement as of the date first above written.

FAIRPOINT COMMUNICATIONS, INC.

/s/ Paul H. Sunu
By: Paul H. Sunu
Title: Chief Executive Officer

EXECUTIVE

/s/ Karen D. Turner
Karen D. Turner

CONFIDENTIALITY, NON-INTERFERENCE, AND INVENTION ASSIGNMENT AGREEMENT

In consideration of FairPoint Communications, Inc., a Delaware corporation (the "Company"), providing me with an employment agreement of even date herewith, and my receipt of the compensation now and hereafter paid to me by the Company, including the additional benefits and compensation provided to me under my employment agreement, I agree to the following:

Section 1. Confidential Information.

(g) Company Group Information. I acknowledge that, during the course of my employment, I will have access to information about the Company and its direct and indirect subsidiaries and affiliates (collectively, the "Company Group") and that my employment with the Company shall bring me into close contact with confidential and proprietary information of the Company Group. In recognition of the foregoing, I agree, at all times during the term of my employment with the Company and for the three (3) year period following my termination of my employment for any reason, to hold in confidence, and not to use, except for the benefit of the Company Group, or to disclose to any person, firm, corporation, or other entity without written authorization of the Company, any Confidential Information that I obtain or create. I understand that "Confidential Information" means information that the Company Group has developed, acquired, created, compiled, discovered, or owned or will develop, acquire, create, compile, discover, or own, that has value in or to the business of the Company Group that is not generally known and that the Company wishes to maintain as confidential. I understand that Confidential Information includes, but is not limited to, any and all non-public information that relates to the actual or anticipated business and/or products, research, or development of the Company, or to the Company's technical data, trade secrets, or know-how, including, but not limited to, research, product plans, or other information regarding the Company's products or services and markets, customer lists, and customers (including, but not limited to, customers of the Company on whom I called or with whom I may become acquainted during the term of my employment), software, developments, inventions, processes, formulas, technology, designs, drawings, engineering, hardware configuration information, marketing, finances, and other business information disclosed by the Company either directly or indirectly in writing, orally, or by drawings or inspection of premises, parts, equipment, or other Company property. Notwithstanding the foregoing, Confidential Information shall not include (i) any of the foregoing items that have become publicly known through no unauthorized disclosure by me or others who were under confidentiality obligations as to the item or items involved, (ii) any information that I am required to disclose to, or by, any governmental or judicial authority, (iii) any information known to me prior to my employment with the Company, other than information acquired in preparation for my service to the Company, or (iv) any information developed independently by me that does not relate to the business of the Company Group; *provided*, *however*, that in the event of such requirement to disclose I will give the Company prompt written notice thereof so that the Company Group may seek an appropriate protective order and/or waive in writing compliance with the confidentiality provisions of this Confidentiality, Non-Interference, and Invention Assignment Agreement (the "Non-Interference Agreement").

(h) Former Employer Information. I represent that my performance of all of the terms of this Non-Interference Agreement as an employee of the Company has not breached and will not breach any agreement to keep in confidence proprietary information, knowledge, or data acquired by me in confidence or trust prior or subsequent to the commencement of my employment with the Company, and I will not disclose to any member of the Company Group, or induce any member of the Company Group to use, any developments, or confidential or proprietary information or material I may have obtained in connection with employment with any prior employer in violation of a confidentiality agreement, nondisclosure agreement, or similar agreement with such prior employer.

Section 2. **Developments**.

(a) Developments Retained and Licensed. If, during any period during which I perform or performed services for the Company Group (the "Assignment Period"), whether as an officer, employee, director, independent contractor, consultant, or agent, or in any other capacity, I incorporate (or have incorporated) into a Company Group product or process any development, original work of authorship, improvement, or trade secret that I created or owned prior to the commencement of my employment or in which I have an interest (collectively referred to as "Prior Developments"), I hereby grant the Company, and the Company Group shall have, a non-exclusive, royalty-free, irrevocable, perpetual, transferable worldwide license (with the right to sublicense) to make, have made, copy, modify, make derivative works of, use, sell, and otherwise distribute such Prior Development as part of or in connection with such product or process.

(b) Assignment of Developments. I agree that I will, without additional compensation, promptly make full written disclosure to the Company, and will hold in trust for the sole right and benefit of the Company all developments, original works of authorship, inventions, concepts, know-how, improvements, trade secrets, and similar proprietary rights, whether or not patentable or registrable under copyright or similar laws, which I may solely or jointly conceive or develop or reduce to practice, or have solely or jointly conceived or developed or reduced to practice, or have caused or may cause to be conceived or developed or reduced to practice, during the Assignment Period, whether or not during regular working hours, provided they either (i) relate at the time of conception, development or reduction to practice to the business of any member of the Company Group, or the actual or anticipated research or development of any member of the Company Group; (ii) result from or relate to any work performed for any member of the Company Group; or (iii) are developed through the use of equipment, supplies, or facilities of any member of the Company Group, or any Confidential Information, or in consultation with personnel of any member of the Company Group (collectively referred to as "Developments"). I further acknowledge that all Developments made by me (solely or jointly with others) within the scope of and during the Assignment Period are "works made for hire" (to the greatest extent permitted by applicable law) for which I am, in part, compensated by my salary, unless regulated otherwise by law, but that, in the event any such Development is deemed not to be a work made for hire, I hereby assign to the Company, or its designee, all my right, title, and interest throughout the world in and to any such Development.

(c) Maintenance of Records. I agree to keep and maintain adequate and current written records of all Developments made by me (solely or jointly with others) during the Assignment Period. The records may be in the form of notes, sketches, drawings, flow charts, electronic data or recordings, and any other format. The records will be available to and remain the sole property of the Company Group at all times. I agree not to remove such records from the Company's place of business except as expressly permitted by Company Group policy, which may, from time to time, be revised at the sole election of the Company Group for the purpose of furthering the business of the Company Group.

(d) Intellectual Property Rights. I agree to assist the Company, or its designee, at the Company's expense, in every way to secure the rights of the Company Group in the Developments and any copyrights, patents, trademarks, service marks, database rights, domain names, mask work rights, moral rights, and other intellectual property rights relating thereto in any and all countries, including the disclosure to the Company of all pertinent information and data with respect thereto, the execution of all applications, specifications, oaths, assignments, recordations, and all other instruments that the Company shall deem necessary in order to apply for, obtain, maintain, and transfer such rights and in order to assign and convey to the Company Group the sole and exclusive right, title, and interest in and to such Developments, and any intellectual property and other proprietary rights relating thereto. I further agree that my obligation to execute or cause to be executed, when it is in my power to do so, any such instrument or papers shall continue after the termination of the Assignment Period until the expiration of the last such intellectual property right to expire in any country of the world; *provided*, *however*, the Company shall reimburse me for my reasonable expenses incurred in connection with carrying out the foregoing obligation. If the Company is unable because of my mental or physical incapacity or unavailability for any other reason to secure my signature to apply for or to pursue any application for any United States or foreign patents or copyright registrations covering Developments or original works of authorship assigned to the Company as above, then I hereby irrevocably designate and appoint the Company and its duly authorized officers and agents as my agent and attorney in fact to act for and in my behalf and stead to execute and file any such applications or records and to do all other lawfully permitted acts to further the application for, prosecution, issuance, maintenance, and transfer of letters patent or registrations thereon with the same legal force and effect as if originally executed by me. I hereby waive and irrevocably quitclaim to the Company any and all claims, of any nature whatsoever, that I now or hereafter have for past, present, or future infringement of any and all proprietary rights assigned to the Company.

Section 3. **Returning Company Group Documents**.

I agree that, at the time of termination of my employment with the Company for any reason, I will deliver to the Company (and will not keep in my possession, recreate, or deliver to anyone else) any and all Confidential Information and all other documents, materials, information, and property developed by me pursuant to my employment or otherwise belonging to the Company. I agree further that any property situated on the Company's premises and owned by the Company (or any other member of the Company Group), including disks and other storage media, filing cabinets, and other work areas, is subject to inspection by personnel of any member of the Company Group at any time with or without notice.

Section 4. **Disclosure of Agreement**.

As long as it remains in effect, I will disclose the existence of this Non-Interference Agreement to any prospective employer, partner, co-venturer, investor, or lender prior to entering into an employment, partnership, or other business relationship with such person or entity.

Section 5. **Restrictions on Interfering**.

(a) Non-Competition. During the period of my employment with the Company (the "Employment Period") and the Post-Termination Non-Compete Period, I shall not, directly or indirectly, individually or on behalf of any person, company, enterprise, or entity, or as a sole proprietor, partner, stockholder, director, officer, principal, agent, or executive, or in any other capacity or relationship, engage in any Competitive Activities.

(b) Non-Interference. During the Employment Period and the Post-Termination Non-Interference Period, I shall not, directly or indirectly for my own account or for the account of any other individual or entity, engage in Interfering Activities; *provided*, *however*, that I shall not be deemed to violate this subsection (b) to the extent that any employee of any subsequent employer of mine, in the ordinary course of business, conducts any activity described in subsection (c)(iii)(C) below as to any Business Relation, provided that I have not directed or instructed any such employee (either personally or through another) to contact any such Business Relation.

(c) Definitions. For purposes of this Non-Interference Agreement :

(i) "Business Relation" shall mean any current or prospective client, customer, licensee, or other business relation of the Company Group, or any such relation that was a client, customer, licensee, or other business relation within the six (6) month period prior to the expiration of the Employment Period, in each case, to whom I provided services, or with whom I transacted business, or whose identity became known to me in connection with my relationship with or employment by the Company and is not publicly known.

(ii) "Competitive Activities" shall mean telecommunication services provided by a rural exchange carrier business which has substantial business operations in the state of Florida, Maine, New Hampshire, North Carolina, or Vermont.

(iii) "Interfering Activities" shall mean (A) encouraging, soliciting, or inducing, or in any manner attempting to encourage, solicit, or induce, any Person employed by, or providing consulting services to, any member of the Company Group to terminate such Person's employment or services (or in the case of a consultant, materially reducing such services) with the Company Group; (B) hiring any individual who was employed by the Company Group within the six (6) month period prior to the date of such hiring; or (C) encouraging, soliciting, or inducing, or in any manner attempting to encourage, solicit, or induce, any Business Relation to cease doing business with or reduce the amount of business conducted with the Company Group, or in any way interfering with the relationship between any such Business Relation and the Company Group.

(iv) "Person" shall mean any individual, corporation, partnership, limited liability company, joint venture, association, joint-stock company, trust (charitable or non-charitable), unincorporated organization, or other form of business entity.

(v) "Post-Termination Non-Compete Period" shall mean the period commencing on the date of the termination of the Employment Period for any reason and ending on the twelve (12) month anniversary of such date of termination.

(vi) "Post-Termination Non-Interference Period" shall mean the period commencing on the date of the termination of the Employment Period for any reason and ending on the twelve (12) month anniversary of such date of termination.

(d) Non-Disparagement. I agree that during the Employment Period, and at all times thereafter, I will not make any disparaging or defamatory comments regarding any member of the Company Group or its respective current or former directors, officers, or employees in any respect or make any comments concerning any aspect of my relationship with any member of the Company Group or any conduct or events which precipitated any termination of my employment from any member of the Company Group. However, my obligations under this subparagraph (d) shall not apply to disclosures required by applicable law, regulation, or order of a court or governmental agency.

Section 6. **Reasonableness of Restrictions**.

I acknowledge and recognize the highly competitive nature of the Company's business, that access to Confidential Information renders me special and unique within the Company's industry, and that I will have the opportunity to develop substantial relationships with existing and prospective clients, accounts, customers, consultants, contractors, investors, and strategic partners of the Company Group during the course of and as a result of my employment with the Company. In light of the foregoing, I recognize and acknowledge that the restrictions and limitations set forth in this Non-Interference Agreement are reasonable and valid in geographical and temporal scope and in all other respects and are essential to protect the value of the business and assets of the Company Group. I acknowledge further that the restrictions and limitations set forth in this Non-Interference Agreement will not materially interfere with my ability to earn a living following the termination of my employment with the Company and that my ability to earn a livelihood without violating such restrictions is a material condition to my employment with the Company.

Section 7. **Independence; Severability; Blue Pencil**.

Each of the rights enumerated in this Non-Interference Agreement shall be independent of the others and shall be in addition to and not in lieu of any other rights and remedies available to the Company Group at law or in equity. If any of the provisions of this Non-Interference Agreement or any part of any of them is hereafter construed or adjudicated to be invalid or unenforceable, the same shall not affect the remainder of this Non-Interference Agreement, which shall be given full effect without regard to the invalid portions. If any of the covenants contained herein are held to be invalid or unenforceable because of the duration of such provisions or the area or scope covered thereby, I agree that the court making such determination shall have the power to reduce the duration, scope, and/or area of such provision to the maximum and/or broadest duration, scope, and/or area permissible by law, and in its reduced form said provision shall then be enforceable.

Section 8. **Injunctive Relief**.

I expressly acknowledge that any breach or threatened breach of any of the terms and/or conditions set forth in this Non-Interference Agreement may result in irreparable injury to the members of the Company Group. Therefore, I hereby agree that, in addition to any other remedy that may be available to the Company, any member of the Company Group shall be entitled to seek injunctive relief, specific performance, or other equitable relief by a court of appropriate jurisdiction in the event of any breach or threatened breach of the terms of this Non-Interference Agreement without the necessity of proving irreparable harm or injury as a result of such breach or threatened breach. Notwithstanding any other provision to the contrary, I acknowledge and agree that the Post-Termination Non-Compete Period, or Post-Termination Non-Interference Period, as applicable, shall be tolled during any period of violation of any of the covenants in Section 5 hereof.

Section 9. **Cooperation**.

I agree that, following any termination of my employment, I will continue to provide reasonable cooperation to the Company and/or any other member of the Company Group and its or their respective counsel in connection with any investigation, administrative proceeding, or litigation relating to any matter that occurred during my employment in which I was involved or of which I have knowledge. As a condition of such cooperation, the Company shall reimburse me for reasonable out-of-pocket expenses incurred at the request of the Company with respect to my compliance with this paragraph. I also agree that, in the event that I am subpoenaed by any person or entity (including, but not limited to, any government agency) to give testimony or provide documents (in a deposition, court proceeding, or otherwise) that in any way relates to my employment by the Company and/or any other member of the Company Group, I will give prompt notice of such request to the Company and will make no disclosure until the Company and/or the other member of the Company Group has had a reasonable opportunity to contest the right of the requesting person or entity to such disclosure.

Section 10. **General Provisions**.

(d) Governing Law and Jurisdiction. THIS NON-INTERFERENCE AGREEMENT IS GOVERNED BY AND IS TO BE CONSTRUED UNDER THE LAWS OF THE STATE OF NORTH CAROLINA, WITHOUT REGARD TO CONFLICT OF LAWS RULES. ANY DISPUTE OR CLAIM ARISING OUT OF OR RELATING TO THIS NON-INTERFERENCE AGREEMENT OR CLAIM OF BREACH HEREOF SHALL BE BROUGHT EXCLUSIVELY IN FEDERAL COURT IN THE STATE OF NORTH CAROLINA. BY EXECUTION OF THE NON-INTERFERENCE AGREEMENT, THE PARTIES HERETO, AND THEIR RESPECTIVE AFFILIATES, CONSENT TO THE EXCLUSIVE JURISDICTION OF SUCH COURT, AND WAIVE ANY RIGHT TO CHALLENGE JURISDICTION OR VENUE IN SUCH COURT WITH REGARD TO ANY SUIT, ACTION, OR PROCEEDING UNDER OR IN CONNECTION WITH THE NON-INTERFERENCE AGREEMENT. EACH PARTY TO THIS NON-INTERFERENCE AGREEMENT ALSO HEREBY WAIVES ANY RIGHT TO TRIAL BY JURY IN CONNECTION WITH ANY SUIT, ACTION, OR PROCEEDING UNDER OR IN CONNECTION WITH THIS NON-INTERFERENCE AGREEMENT.

(e) Entire Agreement. This Non-Interference Agreement sets forth the entire agreement and understanding between the Company and me relating to the subject matter herein and merges all prior discussions between us. No modification or amendment to this Non-Interference Agreement, nor any waiver of any rights under this Non-Interference Agreement, will be effective unless in writing signed by the party to be charged. Any subsequent change or changes in my duties, obligations, rights, or compensation will not affect the validity or scope of this Non-Interference Agreement.

(f) No Right of Continued Employment. I acknowledge and agree that nothing contained herein shall be construed as granting me any right to continued employment by the Company, and the right of the Company to terminate my employment at any time and for any reason, with or without cause, is specifically reserved.

(g) Successors and Assigns. This Non-Interference Agreement will be binding upon my heirs, executors, administrators, and other legal representatives and will be for the benefit of the Company, its successors, and its assigns. I expressly acknowledge and agree that this Non-Interference Agreement may be assigned by the Company without my consent to any other member of the Company Group as well as any purchaser of all or substantially all of the assets or stock of the Company, whether by purchase, merger, or other similar corporate transaction, provided that the license granted pursuant to Section 2(a) may be assigned to any third party by the Company without my consent.

(h) Survival. The provisions of this Non-Interference Agreement shall survive the termination of my employment with the Company and/or the assignment of this Non-Interference Agreement by the Company to any successor in interest or other assignee.

* * *

I, Karen D. Turner, have executed this Confidentiality, Non-Interference, and Invention Assignment Agreement on the respective date set forth below:

Date: 11/24/2014 /s/ Karen D. Turner
(Signature)

Exhibit 21

FAIRPOINT COMMUNICATIONS, INC.
(formerly known as MJD Communications, Inc.)
SUBSIDIARIES

Name	Jurisdiction of Incorporation
ST Enterprises, Ltd.	**Kansas**
FairPoint Vermont, Inc.	Delaware
ST Long Distance, Inc.	Delaware
Sunflower Telephone Company, Inc.	Kansas
Northland Telephone Company of Maine, Inc.	Maine
MJD Ventures, Inc.	**Delaware**
GTC Communications, Inc. (f/k/a TPG Communications, Inc.)	Delaware
St. Joe Communications, Inc.	Florida
GTC, Inc.	Florida
C-R Communications, Inc.	Illinois
C-R Telephone Company	Illinois
C-R Long Distance, Inc.	Illinois
Community Service Telephone Co.	Maine
Sidney Telephone Company	Maine
Utilities, Inc.	Maine
China Telephone Company	Maine
Maine Telephone Company	Maine
Standish Telephone Company	Maine
UI Long Distance, Inc.	Maine
Berkshire Telephone Corporation	New York
Berkshire Cable Corp.	New York
Berkshire Cellular, Inc.	New York
Berkshire New York Access, Inc.	New York
Chautauqua and Erie Telephone Corporation	New York
Chautauqua & Erie Communications, Inc.	New York
C & E Communications, Ltd.	New York
Taconic Telephone Corp.	New York
Taconic Technology Corp.	New York
Taconic TelCom Corp.	New York
The Columbus Grove Telephone Company	Ohio
Quality One Technologies, Inc.	Ohio
The Germantown Independent Telephone Company	Ohio
Germantown Long Distance Company	Ohio
The Orwell Telephone Company	Ohio
Orwell Communications, Inc.	Ohio
Chouteau Telephone Company	Oklahoma
Bentleyville Communications Corporation	Pennsylvania
BE Mobile Communications, Incorporated	Pennsylvania
Marianna and Scenery Hill Telephone Company	Pennsylvania
Marianna Tel, Inc.	Pennsylvania
Peoples Mutual Telephone Company	Virginia
Peoples Mutual Long Distance Company	Virginia
Comerco, Inc.	Washington
YCOM Networks, Inc.	Washington
Ellensburg Telephone Company	Washington
Elltel Long Distance Corp.	Delaware
MJD Services Corp.	**Delaware**
Big Sandy Telecom, Inc.	Delaware
Bluestem Telephone Company	Delaware
Columbine Telecom Company (f/k/a Columbine Acquisition Corp.)	Delaware
Odin Telephone Exchange, Inc.	Illinois

Ravenswood Communications, Inc.	Illinois
El Paso Long Distance Company	Illinois
The El Paso Telephone Company	Illinois
FairPoint Communications Missouri, Inc.	Missouri
Unite Communications Systems, Inc.	Missouri
ExOp of Missouri, Inc.	Missouri
FairPoint Carrier Services, Inc.	**Delaware**
(f/k/a FairPoint Communications Solutions Corp., f/k/a FairPoint Communications Corp.)	
FairPoint Broadband, Inc.	**Delaware**
Northern New England Telephone Operations LLC	**Delaware**
Telephone Operating Company of Vermont LLC	Delaware
Enhanced Communications of Northern New England Inc.	**Delaware**
FairPoint Logistics, Inc. (f/k/a MJD Capital Corp.)	**South Dakota**
FairPoint Business Services LLC	**Delaware**

Exhibit 23.1

Consent of Independent Registered Public Accounting Firm

We consent to the incorporation by reference in the following Registration Statements:

(1) Registration Statement (Form S-8 No. 333-195886) pertaining to the Amended and Restated 2010 Long Term Incentive Plan of FairPoint Communications, Inc., and

(2) Registration Statement (Form S-8 No. 333-171835) pertaining to the 2010 Long Term Incentive Plan of FairPoint Communications, Inc.

of our reports dated March 4, 2015, with respect to the consolidated financial statements of FairPoint Communications, Inc. and subsidiaries, and the effectiveness of internal control over financial reporting of FairPoint Communications, Inc. and subsidiaries included in this Annual Report (Form 10-K) for the year ended December 31, 2014.

/s/ Ernst & Young LLP
Charlotte, North Carolina
March 4, 2015

Exhibit 31.1

CERTIFICATION

I, Paul H. Sunu, certify that:

1. I have reviewed this Annual Report on Form 10-K of FairPoint Communications, Inc. (the "Company");
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the Company as of, and for, the periods presented in this report;
4. The Company's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in the Securities Exchange Act of 1934, as amended (the "Exchange Act") Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the Company and have:
   (i) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
   (ii) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
   (iii) evaluated the effectiveness of the Company's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
   (iv) disclosed in this report any change in the Company's internal control over financial reporting that occurred during the Company's most recent fiscal quarter (the Company's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting;
5. The Company's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Company's auditors and the audit committee of the Company's board of directors (or persons performing the equivalent functions):
   (i) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Company's ability to record, process, summarize and report financial information; and
   (ii) Any fraud, whether or not material, that involves management or other employees who have a significant role in the Company's internal control over financial reporting.

Date: March 4, 2015

/s/ Paul H. Sunu

Paul H. Sunu

Chief Executive Officer

Exhibit 31.2

CERTIFICATION

I, Ajay Sabherwal, certify that:

1. I have reviewed this Annual Report on Form 10-K of FairPoint Communications, Inc. (the "Company");
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the Company as of, and for, the periods presented in this report;
4. The Company's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in the Securities Exchange Act of 1934, as amended (the "Exchange Act") Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the Company and have:
   (i) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
   (ii) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
   (iii) evaluated the effectiveness of the Company's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
   (iv) disclosed in this report any change in the Company's internal control over financial reporting that occurred during the Company's most recent fiscal quarter (the Company's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting;
5. The Company's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Company's auditors and the audit committee of the Company's board of directors (or persons performing the equivalent functions):
   (i) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Company's ability to record, process, summarize and report financial information; and
   (ii) Any fraud, whether or not material, that involves management or other employees who have a significant role in the Company's internal control over financial reporting.

Date: March 4, 2015

/s/ Ajay Sabherwal

Ajay Sabherwal

Chief Financial Officer

Exhibit 32.1

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Annual Report on Form 10-K of FairPoint Communications, Inc. (the "Company") for the year ended December 31, 2014 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Paul H. Sunu, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

1. The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Paul H. Sunu

Paul H. Sunu
Chief Executive Officer

March 4, 2015

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

Exhibit 32.2

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Annual Report on Form 10-K of FairPoint Communications, Inc. (the "Company") for the year ended December 31, 2014 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Ajay Sabherwal, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

1. The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Ajay Sabherwal

Ajay Sabherwal
Chief Financial Officer

March 4, 2015

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

FAIRPOINT COMMUNICATIONS, INC.

INSIDER TRADING POLICY

and Guidelines with Respect to
Certain Transactions in Company Securities
(January 24, 2011, as revised October 30, 2014)

This Insider Trading Policy (the "**Policy**") provides guidelines to employees, officers and directors of FairPoint Communications, Inc. (the "**Company**") with respect to transactions in the Company's securities. The Company has adopted this policy and the procedures set forth herein to help prevent insider trading and to assist the Company's employees, officers and directors in complying with their obligations under the federal securities laws. Employees, officers and directors are individually responsible to understand and comply with this Policy.

Applicability of Policy

This Policy applies to all transactions in the Company's securities, including common stock, restricted stock, restricted stock units, options and warrants to purchase common stock and any other debt or equity securities the Company may issue from time to time, such as bonds, preferred stock and convertible debentures, as well as to derivative securities relating to the Company's securities, whether or not issued by the Company, such as exchange-traded options. It applies to all employees, officers and directors of the Company and members of their immediate families who reside with them or anyone else who lives in their household and family members who live elsewhere but whose transactions in Company securities are directed by such employees, officers and directors or subject to their influence and control (collectively referred to as "**Family Members**"). This Policy also imposes specific black-out period and pre-clearance procedures on officers, directors and certain other designated employees who receive or have access to Material Nonpublic Information (as defined below) regarding the Company and/or are subject to the reporting provisions and trading restrictions of Section 16 of the Securities Exchange Act of 1934 (the **"Exchange Act"**).

The current "**Insider Trading Compliance Officer**" referred to herein is the General Counsel of the Company.

Definition of Material Nonpublic Information

It is not possible to define all categories of material information. However, information should be regarded as material if there is a substantial likelihood that it would be considered important to a reasonable investor in making a voting decision or an investment decision to buy, hold or sell securities. Any information that could be expected to affect the market price of the Company's securities, whether such information is positive or negative, should be considered material. Because trading that receives scrutiny will be evaluated after the fact with the benefit of hindsight, questions as to the materiality of particular information should be resolved in favor of materiality, and trading should be avoided. Officers, directors and certain other employees are subject to the Blackout Period provisions described in Section 8.

While it may be difficult under this standard to determine whether particular information is material, there are various categories of information that are particularly sensitive and, as a general rule, should always be considered material. Examples of such information may include:

- Financial results;
- Projections of future earnings or losses;
- News of a pending or proposed merger, acquisition or tender offer;
- News of a pending or proposed acquisition or disposition of significant assets;
- Actions of regulatory agencies;
- News of a pending or proposed acquisition or disposition of a subsidiary;
- Impending bankruptcy or financial liquidity problems;
- Gain or loss of a significant customer or supplier;
- Significant energy generation or supply problems;
- Significant pricing changes;
- Stock splits and stock repurchase programs;
- New equity or debt offerings;
- Significant litigation exposure due to actual or threatened litigation; and
- Changes in senior management.

"**Material Nonpublic Information**" is material information that has not been previously disclosed to the general public through a press release or securities filings and is otherwise not available to the general public.

Statement of Policy
General Policy

It is the policy of the Company to oppose the unauthorized disclosure of any nonpublic information acquired in the workplace, the use of Material Nonpublic Information in securities trading and any other violation of applicable securities laws.

Specific Policies

1. **Trading on Material Nonpublic Information**. No employee, officer or director of the Company and its subsidiaries and no Family Member of any such person, shall engage in any transaction involving a purchase or sale of the Company's securities, including any offer to purchase or offer to sell (other than pursuant to a trading plan that complies with SEC Rule 10b5-1 pre-cleared by the Company's Insider Trading Compliance Officer), during any period commencing with the date that he or she possesses Material Nonpublic Information concerning the Company and ending at the close of business on the second Trading Day (as defined below) following the date of public disclosure of that information, or at such time as such nonpublic information is no longer material. As used in this Policy, the term "**Trading Da**y" shall mean a day on which national stock exchanges are open for trading. If, for example, the Company were to make an announcement on a Monday, Designated Insiders (as defined below) shall not trade in the Company's securities until Thursday.

2. Tipping. No employee, officer or director of the Company shall disclose or pass on ("**tip**") Material Nonpublic Information to any other person, including a Family Member or friend, nor shall such person make recommendations or express opinions on the basis of Material Nonpublic Information as to trading in the Company's securities.

3. Confidentiality of Nonpublic Information. Nonpublic information relating to the Company is the property of the Company and the unauthorized disclosure of such information is forbidden.

Potential Criminal and Civil Liability and/or Disciplinary Action

4. Liability for Insider Trading. Any employee, officer or director who engages in a transaction in the Company's securities at a time when they have knowledge of Material Nonpublic Information may be subject to penalties and sanctions, including:

- up to 20 years in jail;
- a criminal fine of up to $5,000,000;
- a civil penalty of up to $1,000,000 or, if greater, 3 times the profit gained or loss avoided; and
- SEC civil enforcement injunctions.

5. Liability for Tipping. Any employee, officer or director who tips ("**tippers**") a third party (commonly referred to as a "**tippee**") may also be liable for improper transactions by tippees to whom they have tipped Material Nonpublic Information regarding the Company or to whom they have made recommendations or expressed opinions on the basis of such information as to trading in the Company's securities. Tippers and tippees would be subject to the same penalties and sanctions as described above, and the SEC has imposed large penalties even when the tipper or tippee did not profit from the trading. The SEC, the stock exchanges and NASDAQ use sophisticated electronic surveillance techniques to uncover insider trading.

6. Control Persons. The Company and its supervisory personnel, if they fail to take appropriate steps to prevent illegal insider trading, may in certain circumstances, be subject to the following penalties:

- a civil penalty of up to 3 times the profit gained or loss avoided as a result of the employee's violation; and
- a criminal penalty of up to $25,000,000.

7. Possible Company-Imposed Disciplinary Actions. Employees of the Company who violate this Policy shall also be subject to disciplinary action by the Company, which may include ineligibility for future participation in the Company's equity incentive plans or termination of employment.

Mandatory Guidelines

8. Trading Blackout Period. To ensure compliance with this Policy and applicable federal securities laws, and to avoid even the appearance of trading on the basis of inside information, the Company requires that officers, directors and all employees in the accounting and finance departments of the Company designated by the Company's Insider Trading Compliance Officer as subject to the Blackout Period (as defined below) prohibitions because of their access to the Company's internal financial statements or other Material Nonpublic Information regarding the Company's performance during annual and quarterly fiscal periods (collectively, "**Designated Insiders**") and Family Members of the foregoing, refrain from conducting transactions involving the purchase or sale of the Company's securities during the Blackout Periods established below. Each of the following periods will constitute a "**Blackout Period**":

> The period commencing on the tenth calendar day of the third fiscal month of each of the first three fiscal quarters (i.e. March 10, June 10 and September 10, as applicable) and commencing on the first calendar day of the third fiscal month of the fourth fiscal quarter (i.e. December 1) and, in each case, ending at the close of business on the second Trading Day following the date of public disclosure of the financial results for such fiscal quarter (which is generally 30 to 75 days after the end of such quarter). If such public disclosure occurs on a Trading Day before the markets close, then that day shall be considered the first Trading Day. If such public disclosure occurs after the markets close on a Trading Day, then the date of public disclosure shall not be considered the first Trading Day following the date of public disclosure.

In addition to the Blackout Periods described above, the Company may announce "special" Blackout Periods from time to time. Typically, this will occur when there are nonpublic developments that would be considered material for insider trading law purposes, such as, among other things, developments relating to regulatory proceedings or a major corporate transaction. Depending on the circumstances, a "special" Blackout Period may apply to all Designated Insiders or only a specific group of Designated Insiders. The Insider Trading Compliance Officer will provide written notice to Designated Insiders subject to a "special" Blackout Period. Any person made aware of the existence of a "special" Blackout Period should not disclose the existence of the Blackout Period to any other person. The failure of the Company to designate a person as being subject to a "special" Blackout Period will not relieve that person of the obligation not to trade while aware of Material Nonpublic Information. As used in this Policy, the term "Blackout Period" shall mean all periodic Blackout Periods and all "special" Blackout Periods announced by the Company.

The purpose behind the Blackout Period is to help establish a diligent effort to avoid any improper transactions. Trading in the Company's securities outside a Blackout Period should not be considered a "safe harbor", and all employees, officers and directors and other persons subject to this Policy should use good judgment at all times. Even outside a Blackout Period, any person possessing Material Nonpublic Information concerning the Company should not engage in any transactions in the Company's securities until such information has been known publicly for at least two Trading Days after the date of announcement. Although the Company may from time to time impose special Blackout Periods, because of developments known to the Company and not yet disclosed to the public, each person is individually responsible at all times for compliance with the prohibitions against insider trading.

9. Pre-clearance of Trades. The Company has determined that all executive officers and directors and their Family Members must refrain from trading in the Company's securities, without first complying with the Company's "pre-clearance" process. Each executive officer or director must contact the Company's Insider Trading Compliance Officer not less than two (2) business days prior to commencing any trade in the Company's securities. This pre-clearance requirement applies to any transaction or transfer involving the Company's securities, including a stock plan transaction such as an option exercise, or a gift, transfer to a trust or any other transfer.

The Insider Trading Compliance Officer must pre-clear each proposed trade or transfer. The Insider Trading Compliance Officer is not under any obligation to approve a trade submitted for pre-clearance, and may determine not to permit a trade.

To facilitate the process, the Company has prepared a pre-clearance form, attached hereto as Exhibit A, to be completed and provided to the Insider Trading Compliance Officer. The Insider Trading Compliance Officer will assist with the approval process. No trade or transfer may be effected until the requesting employee, officer or director has received the approved Pre-Clearance Request Form, even if two (2) business days have passed since the Pre-Clearance Request Form was submitted.

The Company may also find it necessary, from time to time, to require compliance with the pre-clearance process from employees designated as Designated Insiders.

Any executive officer and director who wishes to implement a trading plan under SEC Rule 10b5-1 must first pre-clear the plan with the Insider Trading Compliance Officer. As required by Rule 10b5-1, an executive officer or director may enter into a trading plan only when he or she is not in possession of Material Nonpublic Information. In addition, a trading plan may not be entered into during a Blackout Period. Transactions effected pursuant to a pre-cleared trading plan will not require further pre-clearance at the time of the transaction.

10. Individual Responsibility. Every employee, officer and director has the individual responsibility to comply with this Policy against insider trading, regardless of whether a transaction is executed outside a Blackout Period or is pre-cleared by the Company. The restrictions and procedures are intended to help avoid inadvertent instances of improper insider trading, but appropriate judgment should always be exercised by each employee, officer and director in connection with any trade in the Company's securities.

An employee, officer or director may, from time to time, have to forego a proposed transaction in the Company's securities even if he or she planned to make the transaction before learning of the Material Nonpublic Information and even though the Insider believes he or she may suffer an economic loss or forego anticipated profit by waiting.

Certain Exceptions

11. Stock Options Exercises. For purposes of this Policy, the Company considers that the exercise of stock options under the Company's stock option plans (but not the sale of the underlying stock) to be exempt from this Policy. This Policy does apply, however, to any sale of stock as part of a broker-assisted "cashless" exercise of an option, or any market sale for the purpose of generating the cash needed to pay the exercise price of an option.

12. 401(k) Plan. This Policy does not apply to purchases of Company stock in the Company's 401(k) plan resulting from periodic contributions of money to the plan pursuant to payroll deduction elections. This Policy does apply, however, to certain elections that may be made under the 401(k) plan, including (a) an election to increase or decrease the percentage of periodic contributions that will be allocated to the Company stock fund, if any, (b) an election to make an intra-plan transfer of an existing account balance into or out of the Company stock fund, (c) an election to borrow money against a 401(k) plan account if the loan will result in a liquidation of some or all of a participant's Company stock fund balance and (d) an election to pre-pay a plan loan if the pre-payment will result in allocation of loan proceeds to the Company stock fund.

13. Employee Stock Purchase Plan. This Policy does not apply to purchases of Company stock in the Company's employee stock purchase plan, if any, resulting from periodic contributions of money to the plan pursuant to the elections made at the time of enrollment in the plan. This Policy also does not apply to purchases of Company stock resulting from lump sum contributions to the plan, provided that the participant elected to participate by lump-sum payment at the beginning of the applicable enrollment period. This Policy does apply to a participant's election to participate in or increase his or her participation in the plan, and to a participant's sales of Company stock purchased pursuant to the plan.

14. Dividend Reinvestment Plan. This Policy does not apply to purchases of Company stock under the Company's dividend reinvestment plan, if any, resulting from reinvestment of dividends paid on Company securities. This Policy does apply, however, to voluntary purchases of Company stock that result from additional contributions a participant chooses to make to the plan, and to a participant's election to participate in the plan or increase his level of participation in the plan. This Policy also applies to his sale of any Company stock purchased pursuant to the plan.

Applicability of Policy to Inside Information Regarding Other Companies

This Policy and the guidelines described herein also apply to Material Nonpublic Information relating to other companies, including the Company's customers, vendors or suppliers ("**business partners**"), when that information is obtained in the course of employment with, or other services performed on behalf of, the Company. Civil and criminal penalties, and termination of employment, may result from trading on inside information regarding the Company's business partners. All employees should treat Material Nonpublic Information about the Company's business partners with the same care required with respect to information related directly to the Company.

Section 16 Liability - Directors and Officers

Certain officers and all directors of the Company must also comply with the reporting obligations and limitations on short-swing profit transactions set forth in Section 16 of the Securities Exchange Act of 1934 (the "**Exchange Act**"). The practical effect of these provisions is that any officer or director who purchases and sells the Company's securities within a six-month period must disgorge all profits to the Company whether or not he or she had knowledge of any Material Nonpublic Information. Under these provisions, and so long as certain other criteria are met, neither the receipt of stock or stock options under the Company's stock plans, nor the exercise of options nor the receipt of stock under the Company's employee stock purchase plan, dividend reinvestment plan or the Company's 401(k) retirement plan is deemed a purchase that can be matched against a sale for Section 16(b) short-swing profit disgorgement purposes; however, the sale of any such shares so obtained is a sale for these purposes. Moreover, no such officer or director may ever make a short sale of the Company's common stock which is unlawful under Section 16(c) of the Exchange Act. The Company will provide separate memoranda and other appropriate materials to the affected officers and directors regarding compliance with Section 16 and its related rules.

The rules on recovery of short-swing profits are absolute and do not depend on whether a person has Material Nonpublic Information.

Publicly Traded Options

A transaction in options is, in effect, a bet on the short-term movement of the Company's stock and therefore creates the appearance that the employee, officer or director is trading based on inside information. Transactions in options also may focus the trader's attention on short-term performance at the expense of the Company's long-term objectives. Accordingly, transactions in puts, calls or other derivative securities, on an exchange or in any other organized market, are prohibited. Option positions arising from certain types of hedging transactions are governed by the section below captioned "Hedging or Monetization Transactions."

Hedging or Monetization Transactions

Certain forms of hedging or monetization transactions, such as zero-cost collars and forward sale contracts, allow an employee, officer or director to lock in much of the value of his stock holdings, often in exchange for all or part of the potential for upside appreciation in the stock. These transactions would allow an employee, officer or director to continue to own the covered securities, but without the full risks and rewards of ownership. When that occurs, their interests and the interests of the Company and its shareholders may be misaligned and may signal a message to the trading market that may not be in the best interests of the Company and its shareholders at the time it is conveyed. Accordingly, hedging transactions and all other forms of monetization transactions are prohibited.

Margin Accounts and Pledges

Securities held in a margin account may be sold by the broker without the customer's consent if the customer fails to meet a margin call. Similarly, securities pledged (or hypothecated) as collateral for a loan may be sold in foreclosure if the borrower defaults on the loan. A margin sale or foreclosure sale may occur at a time when the pledgor is aware of Material Nonpublic Information or otherwise is not permitted to trade in Company securities pursuant to Blackout Period restrictions. Thus, employees, officers and directors are prohibited from pledging Company securities as collateral for a loan. Additionally, shares of Company stock may not be held in a margin account.

Post-Termination Transactions

This Policy continues to apply to transactions in Company securities even after an employee, officer or director has resigned or terminated employment. If the person who resigns or separates from the Company is in possession of Material Nonpublic Information at that time, he or she may not trade in Company securities until that information has become public or is no longer material.

Communications with the Public

The Company is subject to the SEC's Regulation FD and must avoid selective disclosure of Material Nonpublic Information. The Company has established procedures for releasing material information in a manner that is designed to achieve broad public dissemination of the information immediately upon its release. Pursuant to Company policy, only the executive officers who have been authorized to engage in communications with the public may disclose information to the public regarding the Company and its business activities and financial affairs. The public includes, without limitation, research analysts, portfolio managers, financial and business reporters, news media and investors. In addition, because of the risks associated with the exchange of information through such communications media, employees are strictly prohibited from posting or responding to messages containing information regarding the Company on Internet "bulletin boards," Internet "chat rooms" or in similar online forums. Employees who inadvertently disclose any Material Nonpublic Information must immediately advise the Insider Trading Compliance Officer so the Company can assess its obligations under Regulation FD and other applicable securities laws.

Inquiries

Please direct questions as to any of the matters discussed in this Policy to the Company's Insider Trading Compliance Officer at the following address:

General Counsel
FairPoint Communications, Inc.
521 E. Morehead Street, Suite 500
Charlotte, NC 28202
Telephone: (704) 227-3662
E-mail: slinn@fairpoint.com and ssowell@fairpoint.com

Certifications

All employees, officers and directors of the Company must certify their understanding of, and intent to comply with, this Policy. Please return the enclosed certification immediately to:

General Counsel
FairPoint Communications, Inc.
521 E. Morehead Street, Suite 500
Charlotte, NC 28202
Fax: (704) 344-1594

CERTIFICATIONS

I certify that:

1. I have received, read and understand the Company's Insider Trading Policy, dated January 24, 2011, as revised October 30, 2014. I understand that the Insider Trading Compliance Officer is available to answer any questions I have regarding the Insider Trading Policy.

2. I will comply with the Insider Trading Policy for as long as I am subject to the Policy.

Signature: __________

Print Name:__________

Date: ____________

FAIRPOINT COMMUNICATIONS, INC.
PRE-CLEARANCE REQUEST FORM

To: FairPoint Communications, Inc. (the "Company")
Insider Trading Compliance Officer

From: _________________________

Re: Proposed transaction in the Company's Securities

This is to advise you that the undersigned intends to execute a transaction in the Company's securities on ___________ _____, 20_____ and thereafter until the trading window shall close and does hereby request that the Company pre-clear the transaction as required by the Company's Insider Trading Policy (the "Policy").

The general nature of the transaction is as follows (i.e. open market purchase of 10,000 shares of common stock through NASDAQ, privately negotiated sale of warrants for the purchase of 5,000 shares of common stock, etc.):

____

____

____

The undersigned is not in possession of Material Nonpublic Information (as defined in the Insider Trading Policy) about the Company and will not enter into the transaction if the undersigned comes into possession of Material Nonpublic Information about the Company between the date hereof and the proposed trade execution date.

The undersigned has read and understands the Policy and certifies that the above proposed transaction will not violate the Policy.

The undersigned agrees to advise the Company promptly if, as a result of future developments, any of the foregoing information becomes inaccurate or incomplete in any respect. The undersigned understands that the Company may require additional information about the transaction, and agrees to provide such information upon request.

Dated: ______ Very truly yours,

[Signature]

[Print Name]

Approved:

Insider Trading Compliance Officer

State of A
ALABAMA 911 Board A

AL-NG911-RFP-16-001
Attachment C – Cost Proposal
Table of Contents

Note to Respondents: All pricing being sought under this RFP will be utilized to understand and evaluate your proposal.

AL-NG911-RFP-16-001
Attachment C – Cost Proposal
Instructions

<u>Overview</u>

Each respondent must complete the cost worksheets that follow, using the format as provided. Please see the specific completion instructions included on each individual tab.

Respondents are encouraged to indicate if they are unable to provide specific products or services as the best and final offer process will define/refine the specific products and services required from the selected respondent.

Each respondent should document any and all assumptions used for arriving at cost estimates in the following sections.

The Cost Proposal categorizes unit pricing into two main groups: Implementation *(One time price)* and Recurring *(Monthly price)*. The Cost Proposal contains two sections. Section 1 is used for the functional components to implement and operate the 9-1-1 network and Sections 2-6 are specifically for hosted 9-1-1 services and operation.

The Cost Model is calculated from the Cost Proposal elements. Respondents do not need to develop a separate cost model.

Sample numbers have been placed into both the Cost Proposal spreadsheet as an illustration of how the spreadsheets work.

Respondents are expected to replace the sample numbers and modify the timeline to represent its proposal. These figures are not indicative of a possible budget.

RESPONDENTS ARE ADVISED THAT ALL ASSUMPTIONS MADE IN THE COST PROPOSAL AND ELSEWHERE IN THIS RFP REGARDING QUANTITIES (INCLUDING THE NUMBER OF PSAPS) ARE ESTIMATES ONLY,

SUCH QUANTITIES MAY INCREASE OR DECREASE. THE AGREEMENT IS FOR UNIT PRICES ONLY; AND WHERE APPLICABLE A MONTHLY RECURRING CHARGE FOR ONGOING OPERATIONS AND ADMINISTRATION.

OFFERORS, BY SUBMITTING THIS COST PROPOSAL, CERTIFY THAT THEY HAVE MADE A GOOD FAITH EFFORT TO ALLOCATE COSTS TO APPROPRIATE SERVICE CATEGORIES AND HAVE NOT ENGAGED IN UNBALANCED BIDDING OF ANY KIND.

Note to Respondents: All pricing being sought under this RFP will be utilized to understand and evaluate your proposal. All pricing included in these schedules will be on a firm, fixed monthly recurring cost basis for the transfer, implementation, and on-going operations of the system.

AL-NG911-RFP-16-001
Attachment C – Cost Proposal
Instructions - Schedule 1

COST PROPOSAL:

This RFP calls for unit pricing by Deliverable / Cost Area. Respondent will insert its unit prices into the Cost Proposal spreadsheet. The columnar structure shall not be changed.

Implementation Pricing: Includes the Non-Recurring and one time charges for purchasing the equipment and facilities designed to provide the service functionality.

Recurring (Monthly) Pricing: Includes monthly Administration and Operations of the system, and Project Management charges for the duration of the projected implementation period.

The Project Management charge shall encompass all costs associated with implementation of the system and is the only allowable charge prior to acceptance of the ESInet and first PSAP.
Enter your recurring monthly charge for each of the following items:

AL-NG911-RFP ESInet Requirements

AL-NG911-RFP Specific Requirements

AL-NG911-RFP i3/NG Core Services Requirements

System Reporting and i3 Logging Requirements

Service and Support Requirements

Project Management and Planning Requirements

Electrical, Wiring and Cable Requirements

Other Required Items Charges - for items that the Vendor believes are needed but do not fit into one of the specified charge categories.
Please itemize any Other Required Items (add rows to spreadsheet if necessary)
At the bottom of the Cost Proposal spreadsheet please be sure to check and total all the monthly recurring charges.
An additional table is provided for System Hosting.
Please provide a monthly recurring cost for each of the two optional items.

Cost Proposal Column	Instructions
Deliverable / Cost Area	The Deliverable / Cost Area has been pre-populated with the anticipated components required to deliver 911 service to the Alabama PSAP's. Each of these components relates to an existing component or desired functionality. Respondents shall use the list as a guide to prepare unit costs for each functional element. The table includes a set of instructions to help guide how pricing information is entered into the table so that a detailed cost can be generated.
Estimated one time (Non- Recurring - NRC) start up costs, capitol costs etc.	The first three columns are used to enter Non-Recurring charges.
Unit of Measure	Unit of measure is a figure used to calculate a total Non-Recurring charge based upon a Unit cost. This may be a Primary PSAP ; one time implementation milestones; It is the respondents responsibility to articulate what measure they are using to calculate their costs
Estimated Cost	Estimated Cost is the cost of an individual component or system level functionality.
Extended Price (Unit of Measure x Estimated Cost)	The Extended price is a summation of the Unit of Measure multiplied by Estimated Cost.
Ongoing Monthly Recurring Charges (MRC)	Ongoing Monthly Recurring Charges are the monthly service fees billed to the AL911 Board by the system service provider.
Unit of Measure	Unit of measure is a figure used to calculate a total Non-Recurring charge based upon a Unit cost. Ongoing operational costs are expressed in terms of months, days or hours. It is the respondents responsibility to articulate what measure they are using to calculate their costs
Unit Price	Unit price is the monthly charge of a service function provided by the system service provider.
Extended Price (Unit of Measure x Unit Price)	Extended Price (Unit of Measure x Unit Price)

AL-NG911-RFP-16-001
Attachment C – Cost Proposal
Schedule 1 – Equipment and Implementation

This table indicates the pricing elements identified for requirements defined in AL-NG911 RFP ATTACHMENT D - Technical Specifications, for costs associated with the transfer, modification and implementation of the system (from date of contract execution to the end of the month statewide roll-out is completed). The successful Respondent is to group tasks/deliverables by the areas identified.

Instructions: Please fill in the cells shaded yellow. These items will be used to assign Cost components. Do not fill in the gray and blue cells. Note that the blue cells will populate automatically. Price example - ESInet configured at 8 PSAP's for a total of 80,0000. 8 is entered in the unit of measure, $10,000 entered in the estimated cost

	Estimated one time (Nonrecurring - NRC) start up costs, capitol costs etc.			Ongoing monthly recurring costs (MRC)		
Deliverable / Cost Area	**Unit of Measure**	**Estimated Cost**	**Extended Price (Unit of Measure x Estimated Cost)**	**Unit of Measure**	**Unit Price**	**Extended Price (QTY x Unit Price)**
Section 2 - ANGEN ESInet Requirements						
2.2 ANGEN ESInet Services		$ -	$ -		$ -	$ -
ESInet Deployment		$ -	$ -		$ -	$ -
PSAP IP Mesh Transport Network	236	$ 1,833.00	$ 432,588.00	236	$ 1,620.00	$ 382,320.00
IP Core Router Architecture (aggregation service routers)	1	$ 2,360,624.00	$ 2,360,624.00		$ -	$ -
Fiber to the PSAP (high availability option)		$ -	$ -		$ -	$ -
Commodity IP (tertiary service provider connections)	1	$ 7,000.00	$ 7,000.00	1	$ 98.00	$ 98.00
Regulatory and Legislative Support		$ -	$ -		$ -	$ -
2.3 ANGEN Architecture Requirements	2	$ 16,064.00	$ 32,128.00	2	$ 7,850.00	$ 15,700.00
2.4 ANGEN ESInet Features and Functions		$ -	$ -		$ -	$ -
2.5 ANGEN Network Failover		$ -	$ -		$ -	$ -
2.6 ANGEN Network Security	1	$ 1,212,506.00	$ 1,212,506.00	1	$ 971.00	$ 971.00
Sub-Total			**$ 4,044,846.00**			**$ 399,089.00**
Section 3 - ANGEN Specific Requirements						
3.1 System Service Provider Coordination Requirements		$ -	$ -		$ -	$ -
Legacy T-1 Network Transport (OSP to tandems)		$ -	$ -	28	$ 300.00	$ 8,400.00
Originating Service Provider Coordination (wireless carrier)		$ -	$ -		$ -	$ -
Orginating Service Provider Coordination (x-LEC)		$ -	$ -		$ -	$ -
Voice Message Services		$ -	$ -		$ -	$ -
Database Server and Software	1	$ 625,520.00	$ 625,520.00		$ -	$ -
pANI (psuedo ANI) and IP Provider ALI Records		$ -	$ -		$ -	$ -
Third Party Providers Interfaces (TCS and Intrado E2+ interfaces)		$ -	$ -		$ -	$ -
Inter-company ALI Server Connections			$ -			$ -
3.2 Interstate Interconnection Requirements	8	$ 2,566.00	$ 20,528.00	8	$ 1,944.00	$ 15,552.00
3.3 Text to 911 Requirements	118	$ 3,962.00	$ 467,516.00	118	$ 249.00	$ 29,382.00
Originating Service Provider coordination (wireless carrier)		$ -	$ -		$ -	$ -
Sub-Total			**$ 1,113,564.00**			**$ 53,334.00**
Section 4 - ANGEN i3 / NG Core Services Requirements						
4.1 NENA i3 Core Functional Requirements		$ -	$ -		$ -	$ -
SIP Gateway		$ -	$ -		$ -	$ -
SS7 Legacy Gateways		$ -	$ -		$ -	$ -
ALI Interface		$ -	$ -		$ -	$ -
IP Call Routing Platform		$ -	$ -		$ -	$ -
4.2 Border Control Function (BCF)	1	$ 265,828.00	$ 265,828.00		$ -	$ -
4.3 Emergency Call Routing Function (ECRF)	1	$ 303,429.00	$ 303,429.00	1	$ 44,558.00	$ 44,558.00
4.4 Emergency Services Routing Proxy (ESRP)	1	$ 402,504.00	$ 402,504.00		$ -	$ -
4.5 Legacy Network Gateway (LNG)	2	$ 311,370.00	$ 622,740.00		$ -	$ -
4.6 Legacy PSAP Gateway (LPG)	106	$ 5,490.00	$ 581,940.00		$ -	$ -
4.7 Legacy Selective Router Gateway (LSRG)* if included		$ -	$ -		$ -	$ -
4.8 Location Validation Function (LVF)		$ -	$ -	1	$ 11,381.00	$ 11,381.00
4.9 Legacy Database Services	1	$ 543,218.00	$ 543,218.00		$ -	$ -
4.10 Disaster Recovery / Business Continuity		$ -	$ -		$ -	$ -
Continuity of Operations (Resiliency)		$ -	$ -		$ -	$ -
Sub-Total			**$ 2,719,659.00**			**$ 55,939.00**
Section 5 - System Reporting and i3 Logging Requirements						
5.1 Reporting and Data Collection System Requirements	118	$ 4,816.00	$ 568,288.00	118	$ 319.00	$ 37,642.00
Remote Diagnostics		$ -	$ -		$ -	$ -
Performance Monitoring		$ -	$ -		$ -	$ -
Notification and Escalation		$ -	$ -		$ -	$ -
5.2 Statewide Statistical Monitoring	118	$ 1,120.00	$ 132,160.00	118	$ 96.00	$ 11,328.00
5.3 Operational Reporting and Logging	118	$ 560.00	$ 66,080.00	118	$ 41.00	$ 4,838.00
Logging Recording	4	$ 10,808.00	$ 43,232.00		$ -	$ -
System Reporting and Logging Requirements		$ -	$ -		$ -	$ -
5.4 Local Logging Recorder Interface			$ -		$ -	$ -
Sub-Total			**$ 809,760.00**			**$ 53,808.00**
Section 6 - Service / Support Requirements						
6.1 Customer Support Services		$ -	$ -	1	$ -	$ -
Network Operation, Administration and Management	1	$ 60,000.00	$ 60,000.00		$ -	$ -
PSAP Alerting and Remote System Status Alarming		$ -	$ -		$ -	$ -
Quality of Service (QoS) Monitoring and Reporting		$ -	$ -		$ -	$ -
Service Level Agreement (SLA) Monitoring and Reporting	1	$ 70,000.00	$ 70,000.00	1	$ 834.00	$ 834.00
Ongoing Development of New Public Safety Services		$ -	$ -		$ -	$ -
Spares	1	$ 181,554.00	$ 181,554.00		$ -	$ -
6.2 Help Desk		$ -	$ -		$ -	$ -
6.3 Trouble Handling and Ticketing Requirements		$ -	$ -		$ -	$ -
6.4 Training	1	$ 87,150.00	$ 87,150.00		$ -	$ -
6.5 Monitoring of Applications and Equipment	1	$ 117,801.00	$ 117,801.00		$ -	$ -
Intrusion Prevention and Detection		$ -	$ -		$ -	$ -
Identity and Access Management		$ -	$ -		$ -	$ -
6.6 Network Operations Center (NOC)		$ -	$ -		$ -	$ -
6.7 Alarm Categories		$ -	$ -		$ -	$ -
6.8 Scheduled Maintenance		$ -	$ -		$ -	$ -
Sub-Total			**$ 516,505.00**			**$ 834.00**
Section 7 - Project Management and Planning Requirements						
7.1 Implementation Project Plan		$ -	$ -	1	$ 495,333.00	$ 495,333.00
Implementation Oversight		$ -	$ -		$ -	$ -
Cutover Planning		$ -	$ -		$ -	$ -
Migration Plan		$ -	$ -		$ -	$ -
7.2 System Test Plan		$ -	$ -		$ -	$ -
7.3 Transition Plan		$ -	$ -		$ -	$ -
7.4 Service Management Plan		$ -	$ -		$ -	$ -
Sub-Total			**$ -**			**$ 495,333.00**
Section 8 - Electrical, Wiring, and Cable Requirements						
8.1 Electrical		$ -	$ -		$ -	$ -
8.2 Electrical Interference		$ -	$ -		$ -	$ -
8.3 Wiring and Cabling		$ -	$ -		$ -	$ -
8.4 Grounding		$ -	$ -		$ -	$ -
8.5 Transient Voltage Surge Suppression		$ -	$ -		$ -	$ -
Sub-Total			**$ -**			**$ -**
Total Transfer and Implementation Cost			**$ 9,204,334.00**			**$ 1,058,337.00**

Assumptions and Comments

See Cost Assumptions, Comments and Constraints attached

AL-NG911-RFP-16-001
Attachment C – Cost Proposal
Instructions - Schedule 2-6 System Operation

Schedules 2 and 6 – System Hosting	
Schedule 2 On-going System Hosting Post Implementation from completion of statewide rollout Year 1	The Respo area. The s
On-going System Hosting Post Implementation: Year 2	Same instru
On-going System Hosting Post Implementation: Year 3	Same instru
On-going System Hosting Post Implementation: Year 4	Same instru
On-going System Hosting Post Implementation: Year 5	Same instru
On-going System Hosting Post Implementation: Year 6 (Optional Extension)	Same instru
On-going System Hosting Post Implementation: Year 7 (Optional Extension)	Same instru
On-going System Hosting Post Implementation: Year 8 (Optional Extension)	Same instru
On-going System Hosting Post Implementation: Year 9 (Optional Extension)	Same instru
On-going System Hosting Post Implementation: Year 10 (Optional Extension)	Same instru

Instructions
ndent(s) shall enter an annual price for the hosted services in the yellow shaded sheet will calculate the extended price.
uctions as above
uctions as above
uctions as above
uctions as above
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AL-NG911-RFP-16-001
Attachment C – Cost Proposal
Schedules 2 - 6 – Service Operation

These schedules indicate the pricing for Respondents proposed services as defined in Attachment D for the ongoing hosting of the system starting the first full month after statewide roll-out is complete to the period ending five (5) years from contract execution and then for each of the five (5) annual renewal options.

Instructions: Please fill in the cells shaded yellow. These items will be used to assign Cost points. Do not fill in the gray and blue cells. Note that the blue cells will populate automatically. Example - Annual price of hosting service is $120,000 multiplied by 12 months - $1,440,000 total

Cost element	Annual price	Months	Total
Schedule 2 On-going System Hosting Post Implementation from completion of statewide rollout to the period ending Year 1	$ 1,270,006.00	4	$ 5,080,024.00
On-going System Hosting Post Implementation: Year 2	$ 1,270,006.00	12	$ 15,240,072.00
On-going System Hosting Post Implementation: Year 3	$ 1,270,006.00	12	$ 15,240,072.00
On-going System Hosting Post Implementation: Year 4	$ 1,270,006.00	12	$ 15,240,072.00
On-going System Hosting Post Implementation: Year 5	$ 1,270,006.00	12	$ 15,240,072.00
On-going System Hosting Post Implementation: Year 6 (Optional Extension)		12	$ -
On-going System Hosting Post Implementation: Year 7 (Optional Extension)		12	$ -
On-going System Hosting Post Implementation: Year 8 (Optional Extension)		12	$ -
On-going System Hosting Post Implementation: Year 9 (Optional Extension)		12	$ -
On-going System Hosting Post Implementation: Year 10 (Optional Extension)		12	$ -

Assumptions and Comments

See Cost Assumptions, Comments and Constraints attached

State of A

ALABAMA 911 Board A

AL-NG911-RFP-16-001
Attachment C – Cost Proposal
Table of Contents

Note to Respondents: All pricing being sought under this RFP will be utilized to understand and evaluate your proposal.

AL-NG911-RFP-16-001
Attachment C – Cost Proposal
Instructions

Overview

Each respondent must complete the cost worksheets that follow, using the format as provided. Please see the specific completion instructions included on each individual tab.

Respondents are encouraged to indicate if they are unable to provide specific products or services as the best and final offer process will define/refine the specific products and services required from the selected respondent.

Each respondent should document any and all assumptions used for arriving at cost estimates in the following sections.

The Cost Proposal categorizes unit pricing into two main groups: Implementation *(One time price)* and Recurring *(Monthly price)*. The Cost Proposal contains two sections. Section 1 is used for the functional components to implement and operate the 9-1-1 network and Sections 2-6 are specifically for hosted 9-1-1 services and operation.

The Cost Model is calculated from the Cost Proposal elements. Respondents do not need to develop a separate cost model.

Sample numbers have been placed into both the Cost Proposal spreadsheet as an illustration of how the spreadsheets work.

Respondents are expected to replace the sample numbers and modify the timeline to represent its proposal. These figures are not indicative of a possible budget.

RESPONDENTS ARE ADVISED THAT ALL ASSUMPTIONS MADE IN THE COST PROPOSAL AND ELSEWHERE IN THIS RFP REGARDING QUANTITIES (INCLUDING THE NUMBER OF PSAPS) ARE ESTIMATES ONLY,

SUCH QUANTITIES MAY INCREASE OR DECREASE. THE AGREEMENT IS FOR UNIT PRICES ONLY; AND WHERE APPLICABLE A MONTHLY RECURRING CHARGE FOR ONGOING OPERATIONS AND ADMINISTRATION.

OFFERORS, BY SUBMITTING THIS COST PROPOSAL, CERTIFY THAT THEY HAVE MADE A GOOD FAITH EFFORT TO ALLOCATE COSTS TO APPROPRIATE SERVICE CATEGORIES AND HAVE NOT ENGAGED IN UNBALANCED BIDDING OF ANY KIND.

Note to Respondents: All pricing being sought under this RFP will be utilized to understand and evaluate your proposal. All pricing included in these schedules will be on a firm, fixed monthly recurring cost basis for the transfer, implementation, and on-going operations of the system.

AL-NG911-RFP-16-001
Attachment C – Cost Proposal
Instructions - Schedule 1

COST PROPOSAL:

This RFP calls for unit pricing by Deliverable / Cost Area. Respondent will insert its unit prices into the C

Implementation Pricing: Includes the Non-Recurring and one time charges for purchasing the equipmen

Recurring (Monthly) Pricing: Includes monthly Administration and Operations of the system, and Project

The Project Management charge shall encompass all costs associated with implementation of the syste
Enter your recurring monthly charge for each of the following items:

AL-NG911-RFP ESInet Requirements

AL-NG911-RFP Specific Requirements

AL-NG911-RFP i3/NG Core Services Requirements

System Reporting and i3 Logging Requirements

Service and Support Requirements

Project Management and Planning Requirements

Electrical, Wiring and Cable Requirements

Other Required Items Charges - for items that the Vendor believes are needed but do not fit into one of t
Please itemize any Other Required Items (add rows to spreadsheet if necessary)
At the bottom of the Cost Proposal spreadsheet please be sure to check and total all the monthly recurri
An additional table is provided for System Hosting.
Please provide a monthly recurring cost for each of the two optional items.

Cost Proposal Column	

Deliverable / Cost Area	The Deliver to deliver 9 component Responder table includ so that a de
Estimated one time (Non- Recurring - NRC) start up costs, capitol costs etc.	The first thr
Unit of Measure	Unit of mea cost. This It is the res costs
Estimated Cost	Estimated C
Extended Price (Unit of Measure x Estimated Cost)	The Extend
Ongoing Monthly Recurring Charges (MRC)	Ongoing M the system
Unit of Measure	Unit of mea cost. Ongoi It is the res costs
Unit Price	Unit price is
Extended Price (Unit of Measure x Unit Price)	Extended F

ost Proposal spreadsheet. The columnar structure shall not be changed.

t and facilities designed to provide the service functionality.

Management charges for the duration of the projected implementation period.

m and is the only allowable charge prior to acceptance of the ESInet and first PSAP.

the specified charge categories.

ng charges.

Instructions

rable / Cost Area has been pre-populated with the anticipated components required 11 service to the Alabama PSAP's. Each of these components relates to an existing or desired functionality. nts shall use the list as a guide to prepare unit costs for each functional element. The les a set of instructions to help guide how pricing information is entered into the table etailed cost can be generated.
ree columns are used to enter Non-Recurring charges.
asure is a figure used to calculate a total Non-Recurring charge based upon a Unit may be a Primary PSAP ; one time implementation milestones; pondents responsibility to articulate what measure they are using to calculate their
Cost is the cost of an individual component or system level functionality.
led price is a summation of the Unit of Measure multiplied by Estimated Cost.
onthly Recurring Charges are the monthly service fees billed to the AL911 Board by service provider.
asure is a figure used to calculate a total Non-Recurring charge based upon a Unit ing operational costs are expressed in terms of months, days or hours. pondents responsibility to articulate what measure they are using to calculate their
s the monthly charge of a service function provided by the system service provider.
Price (Unit of Measure x Unit Price)

AL-NG911-RFP-16-001
Attachment C – Cost Proposal
Schedule 1 – Equipment and Implementation

This table indicates the pricing elements identified for requirements defined in AL-NG911 RFP ATTACHMENT D - Technical Specifications, for costs associated with the transfer, modification and implementation of the system (from date of contract execution to the end of the month statewide roll-out is completed). The successful Respondent is to group tasks/deliverables by the areas identified.

Instructions: Please fill in the cells shaded yellow. These items will be used to assign Cost components. Do not fill in the gray and blue cells. Note that the blue cells will populate automatically. Price example - ESInet configured at 8 PSAP's for a total of 80,0000. 8 is entered in the unit of measure, $10,000 entered in the estimated cost

	Estimated one time (Nonrecurring - NRC) start up costs, capitol costs etc.			Ongoing monthly recurring c	
Deliverable / Cost Area	**Unit of Measure**	**Estimated Cost**	**Extended Price (Unit of Measure x Estimated Cost)**	**Unit of Measure**	**Unit Price**
Section 2 - ANGEN ESInet Requirements					
2.2 ANGEN ESInet Services		$ -	$ -		$ -
ESInet Deployment		$ -	$ -		$ -
PSAP IP Mesh Transport Network	236	$ 1,833.00	$ 432,588.00	236	$ 1,620.00
IP Core Router Architecture (aggregation service routers)	1	$ 2,360,624.00	$ 2,360,624.00		$ -
Fiber to the PSAP (high availability option)		$ -	$ -		$ -
Commodity IP (tertiary service provider connections)	1	$ 7,000.00	$ 7,000.00	1	$ 98.00
Regulatory and Legislative Support		$ -	$ -		$ -
2.3 ANGEN Architecture Requirements	2	$ 16,064.00	$ 32,128.00	2	$ 7,850.00
2.4 ANGEN ESInet Features and Functions		$ -	$ -		$ -
2.5 ANGEN Network Failover		$ -	$ -		$ -
2.6 ANGEN Network Security	1	$ 1,212,506.00	$ 1,212,506.00	1	$ 971.00
Sub-Total			**$ 4,044,846.00**		
Section 3 - ANGEN Specific Requirements					
3.1 System Service Provider Coordination Requirements		$ -	$ -		$ -
Legacy T-1 Network Transport (OSP to tandems)		$ -	$ -	28	$ 300.00
Originating Service Provider Coordination (wireless carrier)		$ -	$ -		$ -
Orginating Service Provider Coordination (x-LEC)		$ -	$ -		$ -
Voice Message Services		$ -	$ -		$ -
Database Server and Software	1	$ 625,520.00	$ 625,520.00		$ -
pANI (psuedo ANI) and IP Provider ALI Records		$ -	$ -		$ -
Third Party Providers Interfaces (TCS and Intrado E2+ interfaces)		$ -	$ -		$ -
Inter-company ALI Server Connections			$ -		
3.2 Interstate Interconnection Requirements	8	$ 2,566.00	$ 20,528.00	8	$ 1,944.00
3.3 Text to 911 Requirements	118	$ 3,962.00	$ 467,516.00	118	$ 249.00
Originating Service Provider coordination (wireless carrier)		$ -	$ -		$ -
Sub-Total			**$ 1,113,564.00**		
Section 4 - ANGEN i3 / NG Core Services Requirements					
4.1 NENA i3 Core Functional Requirements		$ -	$ -		$ -
SIP Gateway		$ -	$ -		$ -
SS7 Legacy Gateways		$ -	$ -		$ -
ALI Interface		$ -	$ -		$ -
IP Call Routing Platform		$ -	$ -		$ -
4.2 Border Control Function (BCF)	1	$ 265,828.00	$ 265,828.00		$ -
4.3 Emergency Call Routing Function (ECRF)	1	$ 303,429.00	$ 303,429.00	1	$ 44,558.00
4.4 Emergency Services Routing Proxy (ESRP)	1	$ 402,504.00	$ 402,504.00		$ -
4.5 Legacy Network Gateway (LNG)	2	$ 311,370.00	$ 622,740.00		$ -
4.6 Legacy PSAP Gateway (LPG)	106	$ 5,490.00	$ 581,940.00		$ -
4.7 Legacy Selective Router Gateway (LSRG)* if included		$ -	$ -		$ -
4.8 Location Validation Function (LVF)		$ -	$ -	1	$ 11,381.00
4.9 Legacy Database Services	1	$ 543,218.00	$ 543,218.00		$ -
4.10 Disaster Recovery / Business Continuity		$ -	$ -		$ -
Continuity of Operations (Resiliency)		$ -	$ -		$ -
Sub-Total			**$ 2,719,659.00**		
Section 5 - System Reporting and i3 Logging Requirements					
5.1 Reporting and Data Collection System Requirements	118	$ 4,816.00	$ 568,288.00	118	$ 319.00
Remote Diagnostics		$ -	$ -		$ -
Performance Monitoring		$ -	$ -		$ -
Notification and Escalation		$ -	$ -		$ -
5.2 Statewide Statistical Monitoring	118	$ 1,120.00	$ 132,160.00	118	$ 96.00
5.3 Operational Reporting and Logging	118	$ 560.00	$ 66,080.00	118	$ 41.00
Logging Recording	4	$ 10,808.00	$ 43,232.00		$ -
System Reporting and Logging Requirements		$ -	$ -		$ -
5.4 Local Logging Recorder Interface			$ -		$ -
Sub-Total			**$ 809,760.00**		
Section 6 - Service / Support Requirements					
6.1 Customer Support Services		$ -	$ -	1	
Network Operation, Administration and Management	1	$ 60,000.00	$ 60,000.00		$ -
PSAP Alerting and Remote System Status Alarming		$ -	$ -		$ -
Quality of Service (QoS) Monitoring and Reporting		$ -	$ -		$ -
Service Level Agreement (SLA) Monitoring and Reporting	1	$ 70,000.00	$ 70,000.00	1	$ 834.00
Ongoing Development of New Public Safety Services		$ -	$ -		$ -
Spares	1	$ 181,554.00	$ 181,554.00		$ -
6.2 Help Desk		$ -	$ -		$ -
6.3 Trouble Handling and Ticketing Requirements		$ -	$ -		$ -
6.4 Training	1	$ 87,150.00	$ 87,150.00		$ -
6.5 Monitoring of Applications and Equipment	1	$ 117,801.00	$ 117,801.00		$ -
Intrusion Prevention and Detection		$ -	$ -		$ -
Identity and Access Management		$ -	$ -		$ -
6.6 Network Operations Center (NOC)		$ -	$ -		$ -
6.7 Alarm Categories		$ -	$ -		$ -
6.8 Scheduled Maintenance		$ -	$ -		$ -
Sub-Total			**$ 516,505.00**		
Section 7 - Project Management and Planning Requirements					
7.1 Implementation Project Plan		$ -	$ -	1	$ 495,333.00
Implementation Oversight		$ -	$ -		$ -
Cutover Planning		$ -	$ -		$ -
Migration Plan		$ -	$ -		$ -
7.2 System Test Plan		$ -	$ -		$ -
7.3 Transition Plan		$ -	$ -		$ -
7.4 Service Management Plan		$ -	$ -		$ -
Sub-Total			**$ -**		
Section 8 - Electrical, Wiring, and Cable Requirements					
8.1 Electrical		$ -	$ -		$ -
8.2 Electrical Interference		$ -	$ -		$ -
8.3 Wiring and Cabling		$ -	$ -		$ -
8.4 Grounding		$ -	$ -		$ -
8.5 Transient Voltage Surge Suppression		$ -	$ -		$ -
Sub-Total			**$ -**		
Total Transfer and Implementation Cost			**$ 9,204,334.00**		

Assumptions and Comments

See Cost Assumptions, Comments and Constraints attached

AL-NG911-RFP-16-001
Attachment C – Cost Proposal
Instructions - Schedule 2-6 System Operation

Schedules 2 and 6 – System Hosting	
Schedule 2 On-going System Hosting Post Implementation from completion of statewide rollout Year 1	The Respo area. The :
On-going System Hosting Post Implementation: Year 2	Same instru
On-going System Hosting Post Implementation: Year 3	Same instru
On-going System Hosting Post Implementation: Year 4	Same instru
On-going System Hosting Post Implementation: Year 5	Same instru
On-going System Hosting Post Implementation: Year 6 (Optional Extension)	Same instru
On-going System Hosting Post Implementation: Year 7 (Optional Extension)	Same instru
On-going System Hosting Post Implementation: Year 8 (Optional Extension)	Same instru
On-going System Hosting Post Implementation: Year 9 (Optional Extension)	Same instru
On-going System Hosting Post Implementation: Year 10 (Optional Extension)	Same instru

Instructions
ndent(s) shall enter an annual price for the hosted services in the yellow shaded sheet will calculate the extended price.
uctions as above
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uctions as above
uctions as above
uctions as above
uctions as above
uctions as above
uctions as above
uctions as above

AL-NG911-RFP-16-001
Attachment C – Cost Proposal
Schedules 2 - 6 – Service Operation

These schedules indicate the pricing for Respondents proposed services as defined in Attachment D for the ongoing hosting of the system starting the first full month after statewide roll-out is complete to the period ending five (5) years from contract execution and then for each of the five (5) annual renewal options.

Instructions: Please fill in the cells shaded yellow. These items will be used to assign Cost points. Do not fill in the gray and blue cells. Note that the blue cells will populate automatically. Example - Annual price of hosting service is $120,000 multiplied by 12 months - $1,440,000 total

Cost element	Annual price	Months	Total
Schedule 2 On-going System Hosting Post Implementation from completion of statewide rollout to the period ending Year 1	$ 1,270,006.00	4	$ 5,080,024.00
On-going System Hosting Post Implementation: Year 2	$ 1,270,006.00	12	$ 15,240,072.00
On-going System Hosting Post Implementation: Year 3	$ 1,270,006.00	12	$ 15,240,072.00
On-going System Hosting Post Implementation: Year 4	$ 1,270,006.00	12	$ 15,240,072.00
On-going System Hosting Post Implementation: Year 5	$ 1,270,006.00	12	$ 15,240,072.00
On-going System Hosting Post Implementation: Year 6 (Optional Extension)		12	$ -

AL-NG911_RFP-16-001
Attachment C – Cost Proposal
Cost Assumptions, Conditions and Constraints

Schedule 1

1. We have priced out a fully functional solution. We have made every attempt to itemize and fit the pricing within the framework of this pricing sheet. However, many of the items are rolled up into another line item.
2. It is expected that monthly recurring costs defined in this schedule will not all commence at the beginning of the implementation period. Therefore it is difficult within the constructs of this spreadsheet to reflect the projected costs over the course of an 18 month implementation period. Multiplying the MRC by 18 will overstate the costs because the billing for services will ramp up as elements of the network are implemented.
3. Section 4.3 and 4.8: 18 months is the estimated timeline for reaching acceptance. If the duration of the project is longer than 18 months the monthly pricing would extend until acceptance.
4. Section 2.2 The PSAP IP Mesh Transport Network quantity includes redundant logical circuits. Physical circuit diversity will be determined on a site by site basis.
5. Costs for network service element included herein are estimates based on FCC tariffs; specific costs will be determined when PSAP details are made available.
6. Fiber to the PSAP - High availability options - will be discussed and captured in the design phase.
7. For ECRF - $668,374.20 of the implementation costs are amortized over the 18 months of implementation. If a different implementation period is agreed upon, we will amortize it over the revised implementation cycle.
8. For LVF - $170,715.78 of the implementation costs are amortized over the 18 months of implementation. If a different implementation period is agreed upon, we will amortize it over the revised implementation cycle.
9. Section 7.1: Implementation Project Plan pricing is based upon staffing requirements for an 18 month implementation schedule.
10. Section 8: Electrical, Wiring and Cabling Requirements cannot be priced without specific site details and will need site surveys to determine the requirements and costs.

Schedule 2-6

The following assumptions apply to the design and pricing for this proposal.

1. We interpret the column labeled “Annual price” is meant to read “Monthly price”.
2. 2 host locations within the ANGEN network where data will be aggregated and processed
3. 118 end points for data collection and reporting at the PSAP
4. Considering the historical downward trend of hardware costs, it is difficult to project costs for years 6 through 10. Our approach is to assess the currently installed hardware and software in year 5, in order to determine its long term viability in the context of the then-current NG911 environment. From this assessment will come recommendations for replacements and upgrades to address any new functionality or changes to requirements. A pricing model would then be negotiated for the years 6 to 10.

AL-NG911-RFP-16-001
Attachment C – Cost Proposal
Cost Proposal Narrative

PSAP IP Mesh Transport – This item is the NRC and MRC for the IP transport from the data centers to the PSAPs. The links to the PSAPs are 10Mbps and logical redundant for every site. Geographic local loop redundancy can be added depending on availability. This contains FCC tariffed rates and will likely be lower when we receive specific quotes from network providers, using the specific PSAP location details that will be provided by the Board.

IP Core Router Architecture – These costs reflect the costs for the core routers at the data centers along with the routers located at each PSAP. Again, they are redundant.

Commodity IP – This cost reflects those prices associated with aspects of the network necessary to support public IP addressing and other external requirements for the network (ASN etc).

ANGEN Architecture requirements – These costs reflect the cost associated with redundant data center sites and the backbone IP circuits between the data centers.

ANGEN network security – These costs reflect all aspects of security required for the network, which includes firewalls, authentication mechanisms, routine security events and other related items.

Legacy T1 Network Transport – This is the price for the connectivity from the selective router sites to the data centers.

Database server and software – This is the cost for the LIS database and associated level of effort to install, configure and test.

Interstate interconnection requirements – These are the tariffed rates for redundant connectivity to the four surrounding states as indicated within the RFP. These interconnection circuits are sized using 10MB of bandwidth each. As more detailed information regarding call volumes between neighboring states becomes available we may adjust the bandwidths and price accordingly.

Text to 9-1-1 – This cost reflects the price for the TCC function and its connectivity to the PSAPs.

Emergency Call Routing Function – This is the implementation cost for the ECRF hardware and software implementation and testing, amortized over 18 months.

Emergency Services Routing Proxy – This is the implementation and testing costs for the ESRP software and hardware.

Legacy Network Gateway – This is the cost for the Legacy Network Gateway function at each data center.

Legacy PSAP Gateway – This cost is for the LPG functionality at the 106 PSAPs identified as not currently being IP capable.

Location Validation Function – This is the implementation and testing costs for the LVF function, amortized over the 18 month project implementation period.

Legacy Database Services – This cost reflects the cost for the ALI function.

Reporting and data collection services – This cost is the per PSAP cost for the reporting system(s).

Statewide Statistical Monitoring – This is the cost for the core MIS software to manage the system.

Operational Reporting and Logging – This is the cost that reflects the operational reporting requirements for each of the PSAPs.

Local Logging Recorder Interface – This is the cost for the i3 logging function for the system - 2 at each data center.

Customer Support Services – This is the personnel cost for staffing and other related costs to support the implementation of the customer support services for this project.

Network operation, administration and management – This is the cost associated with the software/hardware for the operation of the network from design to implementation and to on-going management during implementation.

SLA monitoring and Recording – This is the cost for the NMS used to monitor link status and output the operational metrics necessary to evaluate on-going network operations.

Spares – This cost reflects spare servers and routing/switching equipment necessary to support the system effectively.

Training – This cost reflects the training requirements for personnel that will access the reporting systems and user administration applications.

Monitoring of Applications and Equipment – This cost is for the redundant system necessary to monitor specific servers and other hardware as necessary to assure no failure or abnormalities are occurring.

Implementation Project Plan – This is the cost for the personnel and associated costs necessary to support the on-site equipment installation, configuration and testing.

AL-NG9-1-1-RFP-16-001 - ATTACHMENT D TECHNICAL SPECIFICATIONS

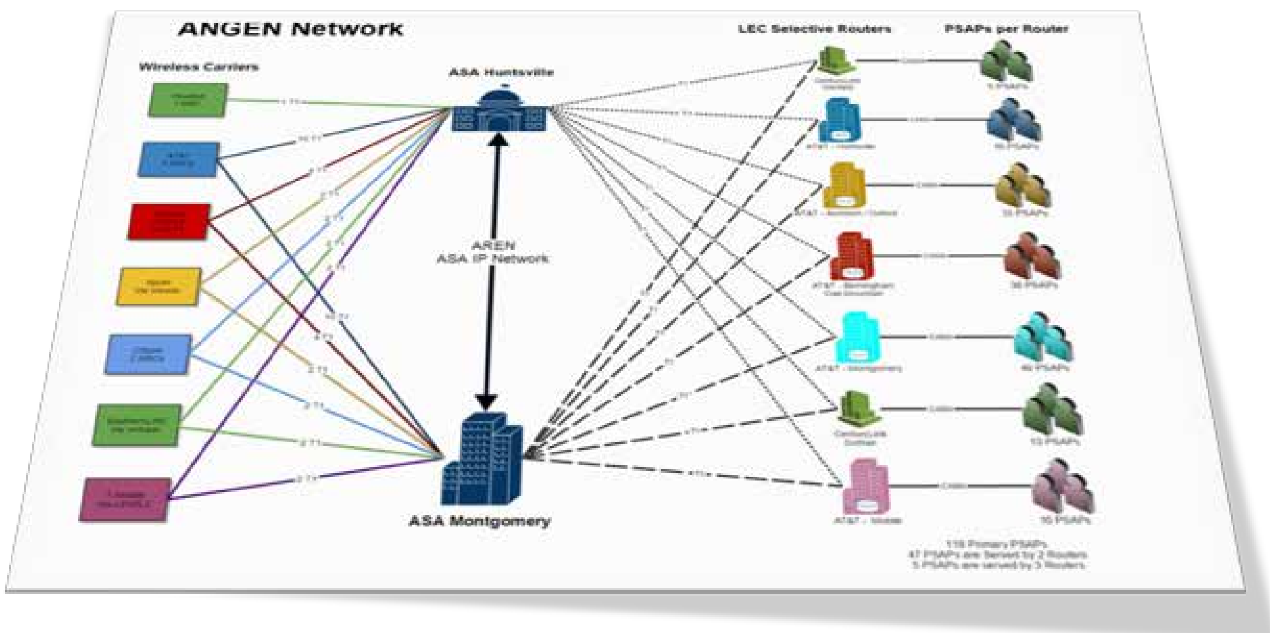


Table of Contents

ATTACHMENT D TECHNICAL SPECIFICATIONS

AL-NG9-1-1-RFP-16-001

SECTION 1 RESPONSE INSTRUCTIONS

1.1 GENERAL RESPONSE INSTRUCTIONS

Respondents must respond with either COMPLY, NON COMPLY or EXCEPTION to all of the sections and requirements in this RFP.

It is recommended that all detailed responses are located under the section heading and section verbiage to aid in evaluation. Enter your response(s) in line with the sections and requirements at the end of each section. If no clear order is followed; the response may be disqualified.

Respondents that take an EXCEPTION to a particular requirement must provide an alternative to the required feature or function specified. The alternative must describe in detail how it meets the original requirement and must include any other pertinent information that may be necessary to properly consider the alternative being offered (i.e. diagrams, enhanced capability, design efficiency, cost savings, etc.).

The Board recognizes that in some cases Respondents may be able to provide a service or function that is superior to the requirements listed. If the Respondent wishes to present such an alternative, an EXCEPTION should be used to clearly articulate the functionality that Respondents would like to propose as an alternative for evaluation.

The requirements specified in this RFP are identified as MUST haves, SHALL haves, REQUIRED, REQUIRES, or REQUIREMENT(S).

Each proposal will be evaluated according to how well the requirements have been addressed.

Features and functions listed as DESIRABLE are not required. Desirable features and functions add value to a requirement. Respondents are encouraged to provide desirable features and functions where they have an opportunity to maximize the value to the Board while also satisfying the underlying requirement.

Desirable features, functions or elements are described in the RFP as SHOULD, MAY, COULD or DESIRED.

1.2 SCOPE OF PROCUREMENT

1.2.1 PURPOSE

The Alabama 9-1-1 Board (AL9-1-1, the Board) seeks competitive bids from qualified vendors to provide integrated network services for the operation of the ANGEN Network currently serving the PSAPs of Alabama. Alabama is currently served by a wireless 9-1-1 call delivery network known as ANGEN.

The purpose of this procurement is to ensure that at a minimum, the current services provided by the existing ANGEN Network are continued and improved upon as technology, standards, and societal demands evolve.

The AL9-1-1 Board invites qualified vendors with documented expertise and experience to submit proposals to provide wireless and wireline E9-1-1 call delivery, i3 ESInet Network Services, reporting, monitoring, service and support for the operation of the ANGEN Network.

Comply. FairPoint, SolaCom and GeoComm (the "FairPoint Team") are working to provide this response. FairPoint is the prime contractor. FairPoint has read, understands, and will comply with the RFP request. FairPoint's proposal requires that the FairPoint Team provide the entire solution requested with FairPoint as the prime contractor. This bid response is not a proposal or offer by FairPoint to provide parts of the overall requested solution.

1.2.2 PROJECT OVERVIEW

This procurement will result in the selection of a service provider or a combination of service providers whose proposed solution(s) and services as sought by this RFP will at a minimum, provide the existing level of service as provided by the current ANGEN network to include all existing capabilities, functions, components and ancillary services to all Alabama PSAPs either directly or in collaboration with other systems, services and providers both in Alabama and in adjoining states (MS, TN, FL and GA).

> ***This RFP does not include PSAP CPE, PSAP call taking equipment, furniture, computers or other operational systems required by PSAPs. It is focused only on the services required for the operation of the ANGEN Network and the services it provides to Alabama PSAPs.***

The solution(s) and services sought through this RFP may be proposed as an integrated, comprehensive solution, or as a stand-alone component representing a best in class service offering capable of being integrated with other components that will comprise the ANGEN ecosystem.

The Board may, at its discretion, integrate proposed solutions or components of proposed solutions in order to achieve an enterprise-wide, statewide, best in class system that benefits all Alabama PSAPs and best serves the Board in fulfilling its duties under the law.

The Board would prefer an integrated solution with a designated primary vendor contractually responsible for providing the services as specified in this RFP.

The Board may, at its discretion, designate a contractual prime vendor and require contractual relationships, cooperative agreements, interconnection to and interaction with other system service providers or third parties as required or necessary for the operation of ANGEN.

Through this procurement the Board seeks to procure a solution or combination of solutions that:

- Are designed to industry standard including the NENA i3 standard (Section 1.6)
- Provides or supports a foundation for NG9-1-1 and is designed to support or interoperate with core i3 functionality (Section 4)
- Are secure and resilient to cyber-attack, penetration, abuse or misuse (Section 2)
- Provide the ability to alarm, report, monitor, manage and support on a 24/7/365 basis (Section 6)
- Be able to support or integrate with Interim SMS Text-to-9-1-1 solutions that are currently in-place or planned via delivery methods as prescribed by the Board, as per FCC order or by Carrier consent decree (Section 3)
    - Both inbound and outbound via a TCC and/or through the use of direct SIP based MSRP messaging as prescribed in NENA i3
- Provides or Supports Wireless and Wireline E9-1-1 Call Routing and Data Delivery (Section 3)
    - Is capable of the primary receipt, routing and delivery of Wireless 9-1-1 calls from wireless carriers via an ESInet to any PSAP throughout Alabama and neighboring states (MS, TN, GA, FL) or
    - A solution capable of supporting, integrating with and assisting in the delivery of Wireline E9-1-1 Calls to any Alabama PSAP and neighboring states.
    - A solution capable of supporting, integrating with and assisting in the delivery of Wireless E9-1-1 Calls to any Alabama PSAP and neighboring states.
- Provides or supports Increased fault tolerance, reliability, resiliency and disaster recovery across Alabama (Section 2)
- Provides for or supports Enterprise wide call accounting and data collection (Section 5)

Comply. The FairPoint Team has read, understands, and will comply with the above requirements and support required for the ANGEN network.

1.2.3 SCOPE OF SERVICES

The Board is seeking to procure services from qualified vendors that include the highest degree of resiliency, reliability and redundancy to ensure service availability in keeping with industry standard and best practices.

The services sought by this RFP include:

1. ESInet network design, management, and operation services
2. NG, i3 core functions and capabilities
3. Wireless and Wireline E9-1-1 call routing and reporting services
4. Text to 9-1-1 services
5. Enterprise/State-wide data collection and reporting services on all ANGEN facilitated transactions

6. System and component level monitoring, alarming, diagnostics and reporting services
7. Disaster recovery and system restoration services
8. 24/7/365 Help desk, trouble ticketing and customer facing support services
9. 24/7/365 Network operations center (NOC) monitoring services
10. Installation, testing, maintenance and on-site support services
11. Project management services for the planning, design, testing, installation and operation of the system or systems

Comply. The FairPoint Team has read, understands, and will comply.

The Board does not favor one technology or platform. This RFP is designed to allow providers to package, represent and demonstrate their services. The Board will evaluate each service on its own merit to determine the best solution(s) for the State of Alabama.

This overview of the Scope of the effort is meant to provide a high level understanding of the objectives. This technical specification provides greater detail of the requirements in the following sections.

Comply. Please see below for additional information on our proposed solution.

1.3 STANDARDS

Respondents shall demonstrate their industry knowledge and describe their commitment to providing standards based solutions and services.

The Board may disqualify or reject non-standard or proprietary systems that may hinder NG9-1-1 implementation, limit interoperability, or that might restrict the State from interconnecting to a regional or national 9-1-1 system in the future.

Throughout the duration of the project, Respondents shall maintain compliance with all standards and ensure that the products, solutions and services provided for ANGEN evolve and adapt as the standards evolve.

In addition to all other standards set forth herein and in addition to all other NENA i3 standards, the system shall comply with the following standards:

- NENA 08-003 v1 Detailed Functional and Interface Specification for the NENA i3 Solution, Stage 3 Version 1
- NENA 08-002 NENA Functional and Interface Standards for Next Generation 9-1-1 Version 1.0 (i3)
- NENA 08-751 NENA i3 Technical Requirements Document
- NENA 04-001 v2 PSAP E9-1-1 PSAP Equipment
- NENA 58-001 NENA IP-Capable PSAP Minimum Operational Requirements Standards
- NENA 58-501 IP PSAP 9-1-1 System Features and Capabilities
- NENA 75-001 Security for Next Generation 9-1-1 Standard (NG-SEC), NENA 75-001 v1, and NENA 04-503 v1
- NENA 75-502, NENA 04-502 v1, NENA 04-503 v1, NENA 08-506 v1, NENA 08-752 v1, NENA 71-502 v1, NENA STA-003

- Applicable Internet Engineering Task Force Standards (IETF), such as IP protocols, IP routing protocols, SIP, RTP, LoST, and the PIDF-LO
- NENA 08-506 Emergency Services IP Network Design for NG9-1-1

While specific standards and documents are referenced in the list above, the Board acknowledges that work on these standards is underway and that many of these standards are in the process of being updated and at the time of RFP distribution may now be referenced by a different number or nomenclature. If there are any discrepancies between the items listed above and a current standard or informational document, the most current version will apply.

Respondents shall describe in detail in the response how they shall meet such standards in their design.

Comply. The proposed solution is compliant with the applicable industry standards listed above. The proposed system will maintain compliance with applicable standards. The equipment specified for this response will support the current and evolution of standards as described above.

Federal Communications Commission Rules

All equipment must conform to Federal Communications Commission (FCC) Rules Part 15, Class A (commercial, non-residential radiation and conduction limits) for electromagnetic interference (EMI).

Other Industry Standards

Where applicable, all equipment proposed to support or operate ANGEN must comply with applicable industry standards, such as:

- Underwriters Laboratories (UL)
- International Organization of Standards (ISO)
- Open System Interconnection (OSI)
- Institute of Electrical and Electronics Engineers (IEEE)
- American National Standards Institute (ANSI)
- Electronic Industries Alliance (EIA)
- Telecommunications Industry Association (TIA), (including ANSI/EIA/TIA-568 Commercial Building Telecommunications Wiring Standards), etc.

Comply. The proposed solution is compliant with the applicable industry standards listed above.

1.3.1 OPEN STANDARDS

Respondents shall propose a system that utilizes an Open Standards methodology.

The proposed system shall be subject to standards that enhance open standards and increase interoperability such as ITU, IEEE 802 at ISO Layer-2, and IP and TCP, as defined by the IETF in the applicable RFCs, at ISO Layer-3 and above.

If proprietary standards or protocols are used within a proposed solution; Respondents shall disclose the proprietary nature and discuss any limitations that may result.

Comply.

FairPoint with our value added service providers is committed to open standards and interoperability. We are helping to define Next Generation 9-1-1 through NENA initiatives such as Proof of Concept and Industry Collaboration Events. We are active participants in the NENA sponsored Industry Collaboration Events (ICE) and have been a part of such events annually for the past 5 years. Our employees sit on and chair the various committees and working groups at NENA. Such as: Chair of the Interconnection and Security Committee and Participants of the PSAP CPE working Group, PSAP Credentialing Authority Working Group and the i3 Architecture Working Group.

1.4 ANGEN BACKGROUND

The state of Alabama has a long history of leadership in 9-1-1 services, claiming the nation's first 9-1-1 call in 1968 over a local system in the town of Haleyville soon after AT&T announced the designation of 9-1-1 as a national emergency number.

More than 40 years later, the state's circuit-switched copper-wire system was struggling to keep up with telecom advances that included wireless mobile phones and Voice over IP.

Work on the present day ANGEN system began in June 2012. Wireless traffic is the current primary focus of the ANGEN system because it accounts for the majority of emergency calls in Alabama, as much as 70 percent in some places.

The ultimate goal of ANGEN is to provide NG9-1-1 services that combine voice, video, text and data on a single emergency communications platform, to let callers use the services they are accustomed to on their smart phones and other devices when making emergency calls, as well as provide additional information to first responders.

ANGEN relies upon and uses the Alabama Supercomputer Authority backbone network (ASA) for interconnection between two aggregation points located in Huntsville AL and Montgomery AL.

All wireless carriers providing service in AL interconnect and aggregate all circuits used for wireless 9-1-1 traffic redundantly to these two aggregation points. This forms the basis for the current level of service for ANGEN.

<u>Current ANGEN Partners include:</u>

Local 9-1-1 Districts – All counties and some cities have 9-1-1 Districts to set policy and manage the local PSAP or PSAPs. County Commissions or City Councils appoint the District Boards, or the elected officials sometimes serve as the 9-1-1 Board.

Alabama 9-1-1 Board – The board is charged with administering the $1.75 collected monthly from each phone account for 9-1-1 expenses. The Alabama 9-1-1 Board administered the grant awarded to the Alabama Department of Homeland Security, which partially funded the implementation of ANGEN.

Bandwidth Inc – current system service provider provides the hardware, software, and support services to route wireless 9-1-1 calls to the proper PSAP using the legacy Selective Routers. There are two core facilities in different parts of the state, either of which can handle the entire State if needed.

Alabama Supercomputer Authority (ASA) – Provisions and manages the physical IP network and the redundant and diverse back-bone network that connects the two core facilities in Huntsville and Montgomery.

AL-NG9-1-1-RFP-16-001 ATTACHMENT D- Technical Specifications

Current ANGEN Network Diagram

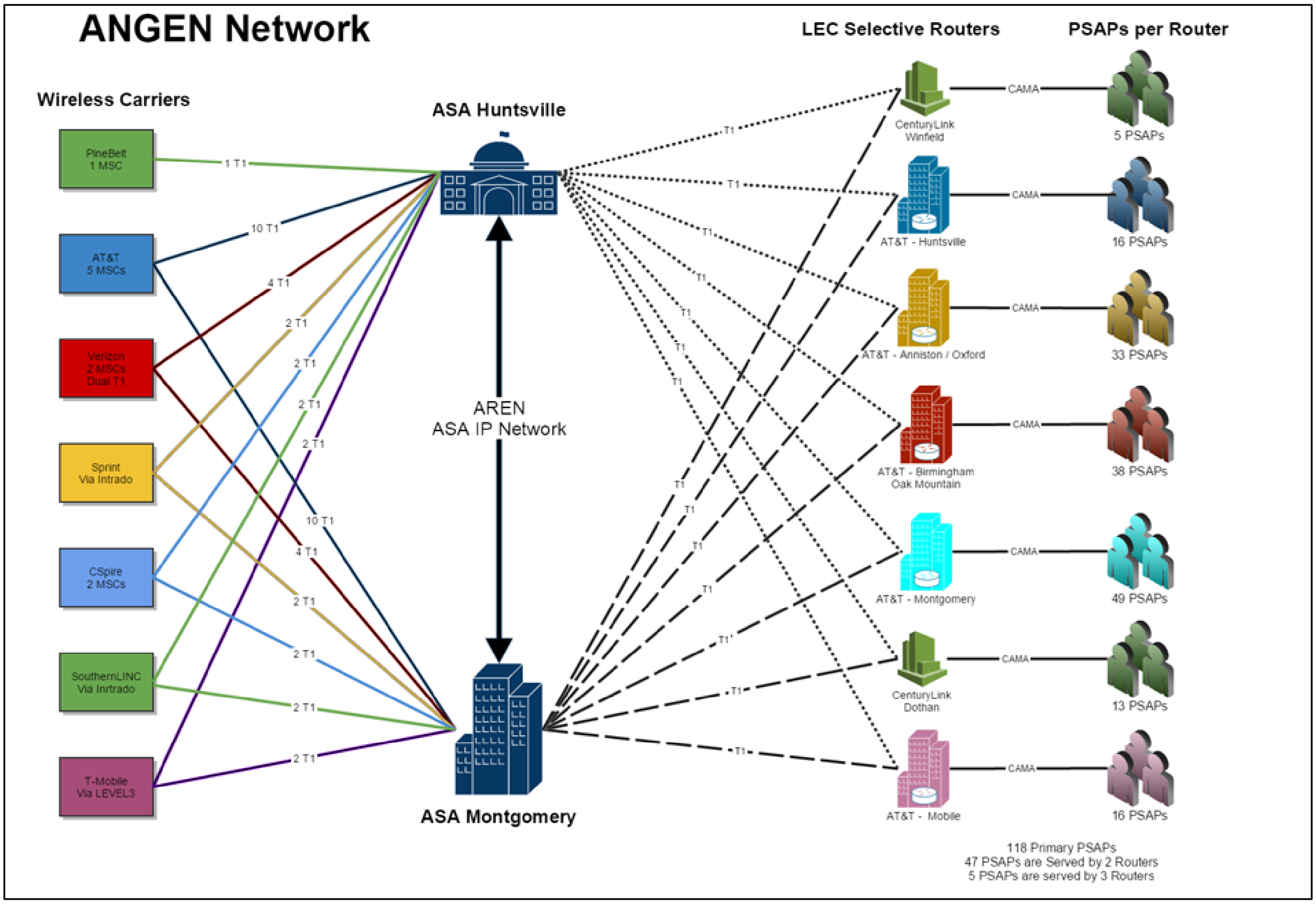


Figure 1 - Current ANGEN Connectivity Diagram

The diagram above represents the logical network connectivity currently employed by the ANGEN system. This diagram is current as of the distribution of this RFP. This diagram will be used and referenced here for the purposes of defining certain requirements and design considerations for any proposed solutions offered by Respondents.

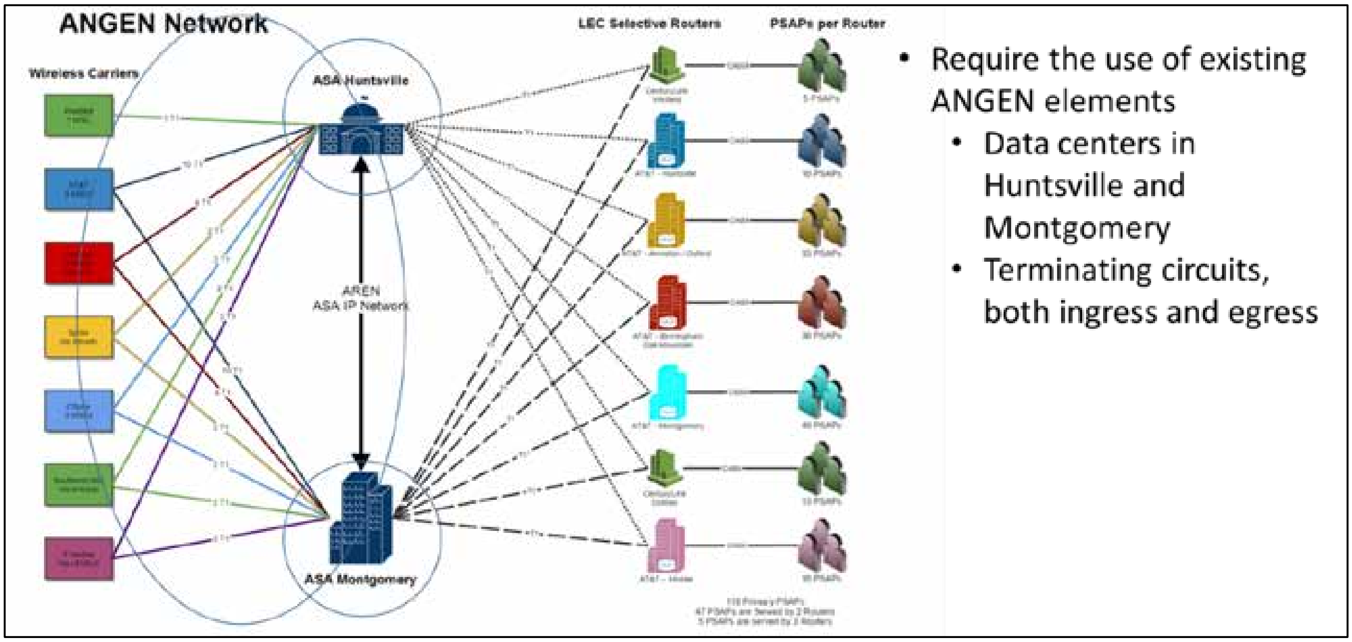


Figure 2 – Current ANGEN Component Re-Use Diagram

The Board's preference is to reuse and repurpose the existing elements of ANGEN represented in the diagram above. Respondents must take this into consideration in any solution proposed and designed in response to this RFP.

Due to the critical nature of operational specifics regarding the capabilities and operation of ANGEN, additional details and information related to the current ANGEN design, configuration, capabilities, connections and operations will be shared with Respondents deemed qualified after the initial receipt of proposals to this RFP.

ANGEN 2015 Operating Metrics

2015 ANGEN Call Volumes By County			
County	**2015 Total**	**Average Month**	**% State**
Jefferson	571,830	47,653	20.9077%
Mobile	284,576	23,715	10.4049%
Montgomery	210,670	17,556	7.7027%
Madison	152,949	12,746	5.5922%
Tuscaloosa	138,640	11,553	5.0691%
Baldwin	77,515	6,460	2.8342%
Lee	70,111	5,843	2.5634%
Shelby	61,533	5,128	2.2498%
Houston	56,803	4,734	2.0769%
Etowah	55,720	4,643	2.0373%
Calhoun	51,523	4,294	1.8838%
Russell	48,684	4,057	1.7800%

2015 ANGEN Call Volumes By County			
Morgan	46,305	3,859	1.6930%
Talladega	45,321	3,777	1.6571%
Lauderdale	41,298	3,442	1.5100%
Dallas	41,044	3,420	1.5007%
Cullman	34,702	2,892	1.2688%
Marshall	33,925	2,827	1.2404%
St Clair	33,867	2,822	1.2383%
Elmore	32,522	2,710	1.1891%
Walker	31,516	2,626	1.1523%
Limestone	25,180	2,098	0.9206%
Colbert	24,895	2,075	0.9102%
Escambia	24,571	2,048	0.8984%
Chilton	23,117	1,926	0.8452%
Blount	22,896	1,908	0.8371%
Autauga	21,362	1,780	0.7811%
Coffee	21,178	1,765	0.7743%
Dale	20,105	1,675	0.7351%
Butler	19,534	1,628	0.7142%
DeKalb	19,174	1,598	0.7011%
Chambers	18,931	1,578	0.6922%
Marion	17,552	1,463	0.6417%
Covington	16,703	1,392	0.6107%
Marengo	16,251	1,354	0.5942%
Pike	15,907	1,326	0.5816%
Tallapoosa	15,805	1,317	0.5779%
Franklin	15,769	1,314	0.5766%
Macon	15,523	1,294	0.5676%
Sumter	15,033	1,253	0.5496%
Pickens	14,943	1,245	0.5464%
Jackson	14,942	1,245	0.5463%
Monroe	13,168	1,097	0.4815%
Lawrence	12,819	1,068	0.4687%
Greene	12,689	1,057	0.4639%
Clarke	12,583	1,049	0.4601%
Hale	11,516	960	0.4211%
Barbour	11,360	947	0.4154%
Geneva	10,746	896	0.3929%
Cherokee	10,580	882	0.3868%
Lowndes	10,263	855	0.3752%
Perry	10,199	850	0.3729%

2015 ANGEN Call Volumes By County			
Winston	10,084	840	0.3687%
Conecuh	9,252	771	0.3383%
Bibb	8,457	705	0.3092%
Cleburne	7,841	653	0.2867%
Wilcox	7,615	635	0.2784%
Washington	7,603	634	0.2780%
Lamar	6,787	566	0.2482%
Crenshaw	6,629	552	0.2424%
Randolph	6,609	551	0.2416%
Choctaw	6,242	520	0.2282%
Fayette	5,648	471	0.2065%
Henry	4,910	409	0.1795%
Bullock	4,475	373	0.1636%
Clay	3,353	279	0.1226%
Coosa	3,174	265	0.1161%
Grand Total	**2,735,027**	**227,919**	**100.0000%**

Table 1 - 2015 ANGEN Call Volumes by County

The table above represents the ANGEN operational call volumes by AL county for 2015. These figures represent all Wireless E9-1-1 calls processed in Alabama in 2015 and processed by the ANGEN system. This table can be used for reference in design considerations of any proposed solutions provided in response to this RFP.

<u>Current ANGEN Call Volumes by Month 2015</u>

The chart below depicts actual wireless E9-1-1 call volumes by month of the ANGEN system. The information represented below can be used for estimating system capacities and call volumes and can be used as a basis for developing initial cost estimates.

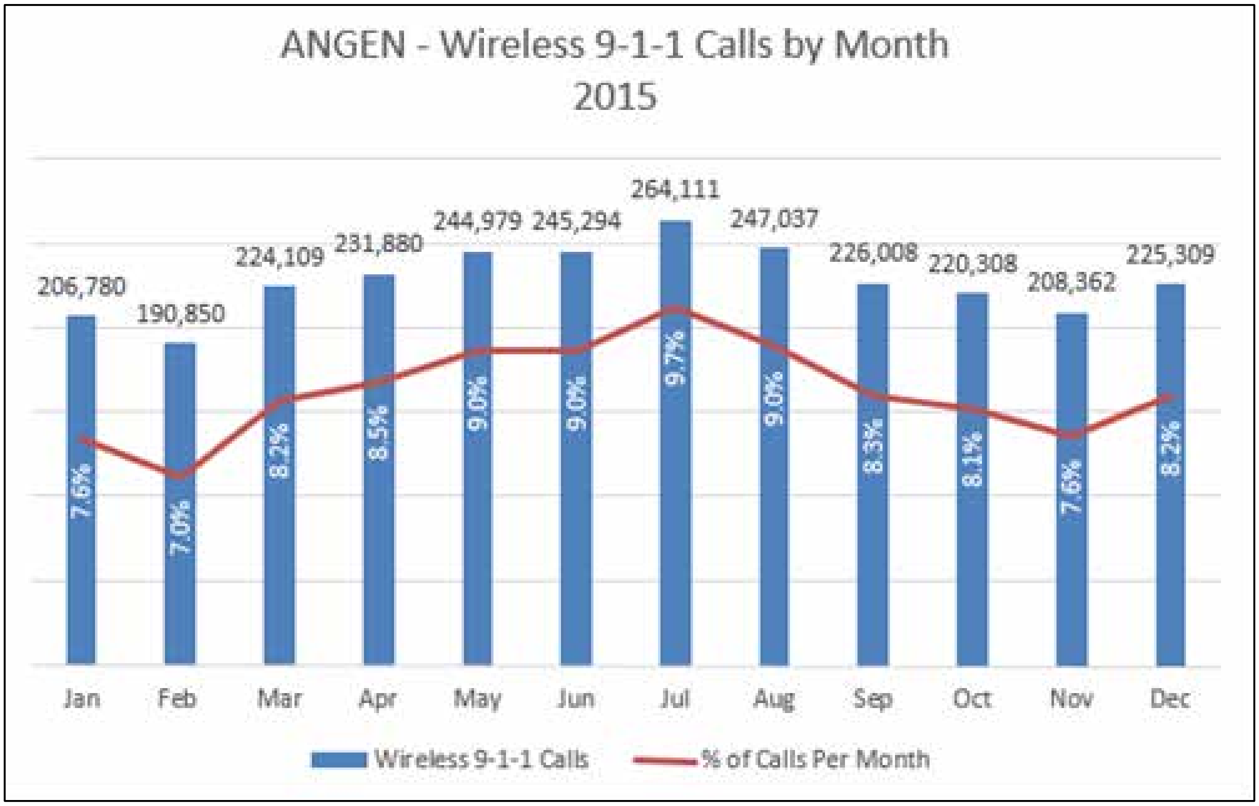


Figure 3 - Chart of ANGEN Call Volumes by Month 2015

Current ANGEN Call Routing Diagram

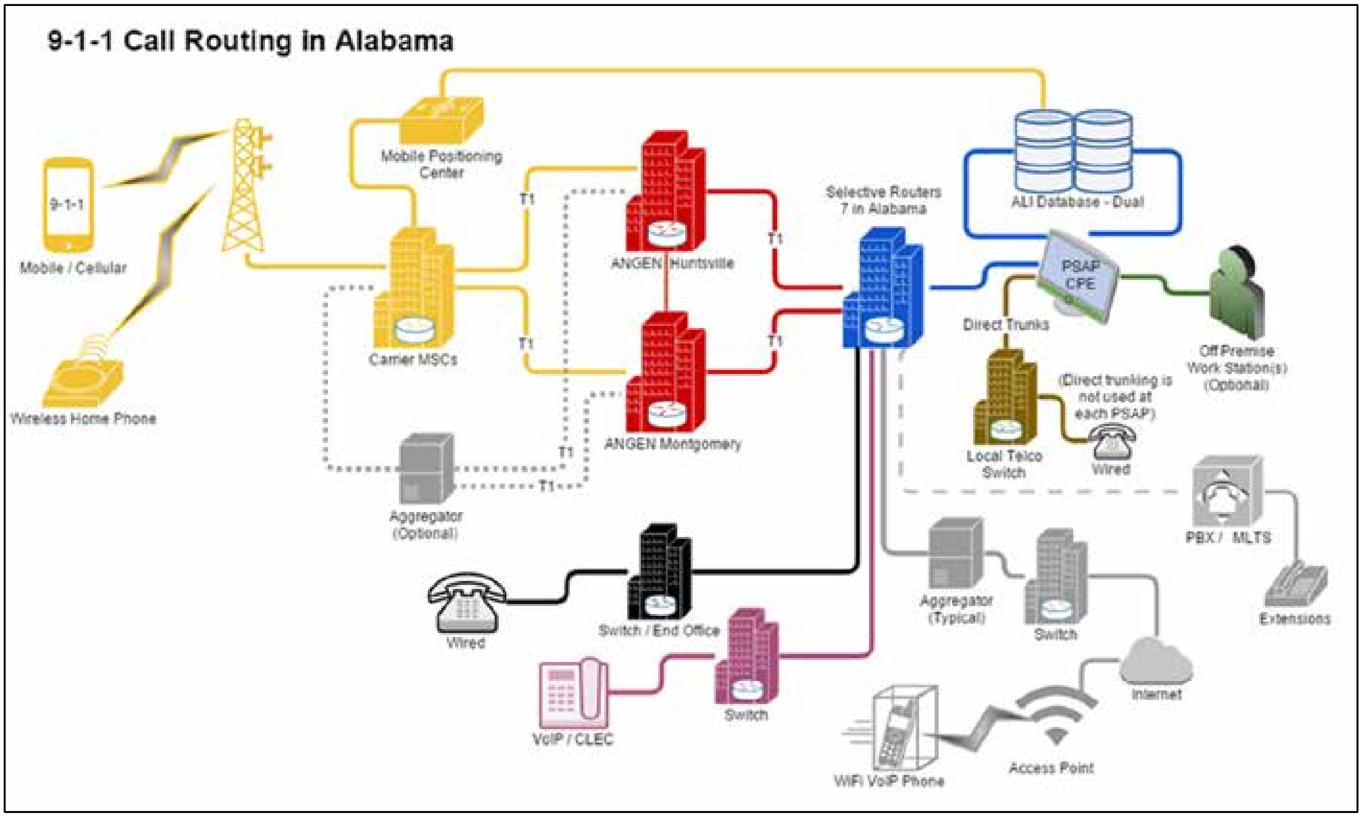


Figure 4 – Current ANGEN Call Routing Diagram

The diagram above provides the logical call flow and routing of the current ANGEN system. Additional details include:

- Each carrier purchases the network to the core facilities and the State's vendor purchases the circuits to the selective routers.
- Emergency Communications Districts (ECDs) purchase the circuits from the selective routers to the PSAP.

SECTION 2 ANGEN ESINET REQUIREMENTS

This section provides the ANGEN ESInet requirements and design considerations for Respondent's to this RFP.

2.1 ANGEN ESINET DESIGN GOALS AND OBJECTIVES

ANGEN Conceptual Design Diagrams for Reference

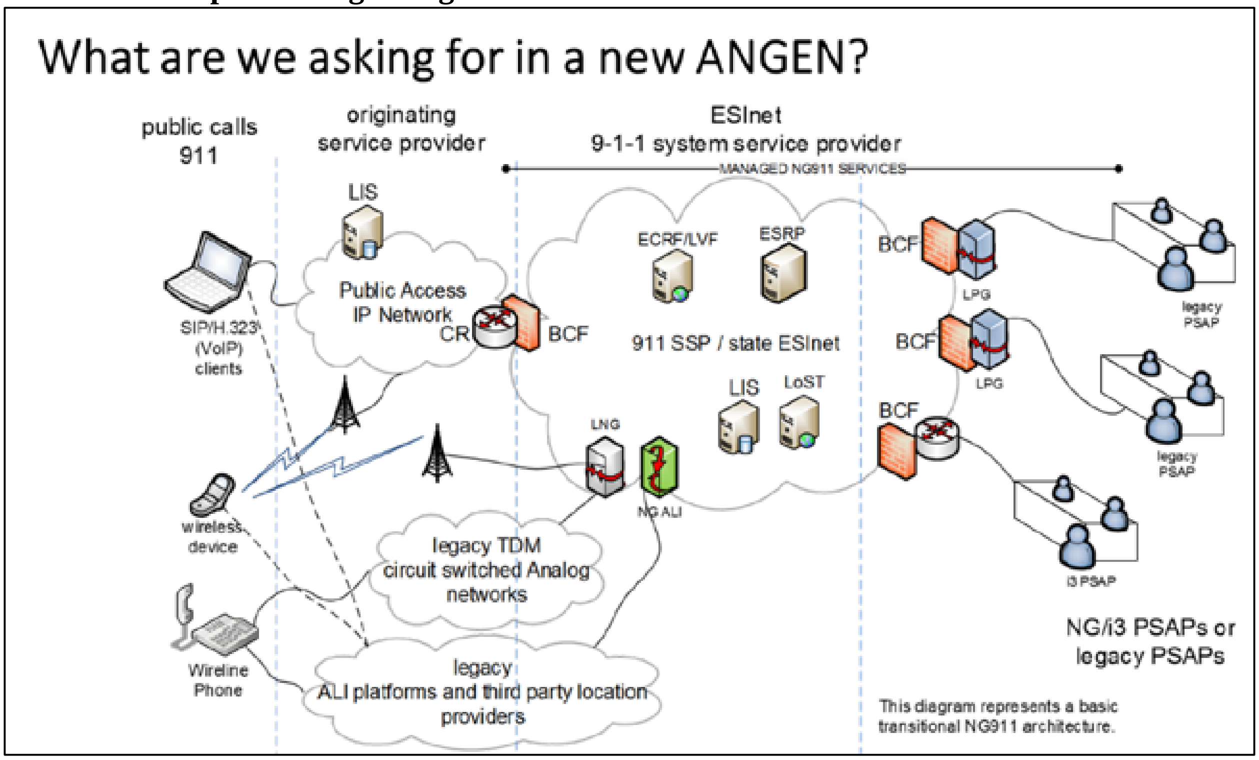


Figure 5 - ANGEN Conceptual Design Diagram

The diagram above represents the conceptual end state of the Future ANGEN system and services as desired by the Board and sought by this RFP. The ESInet will be designed to support and facilitate the operational services provided by the ANGEN system functional elements represented in the diagram above.

Comply. FairPoint has read and understands.

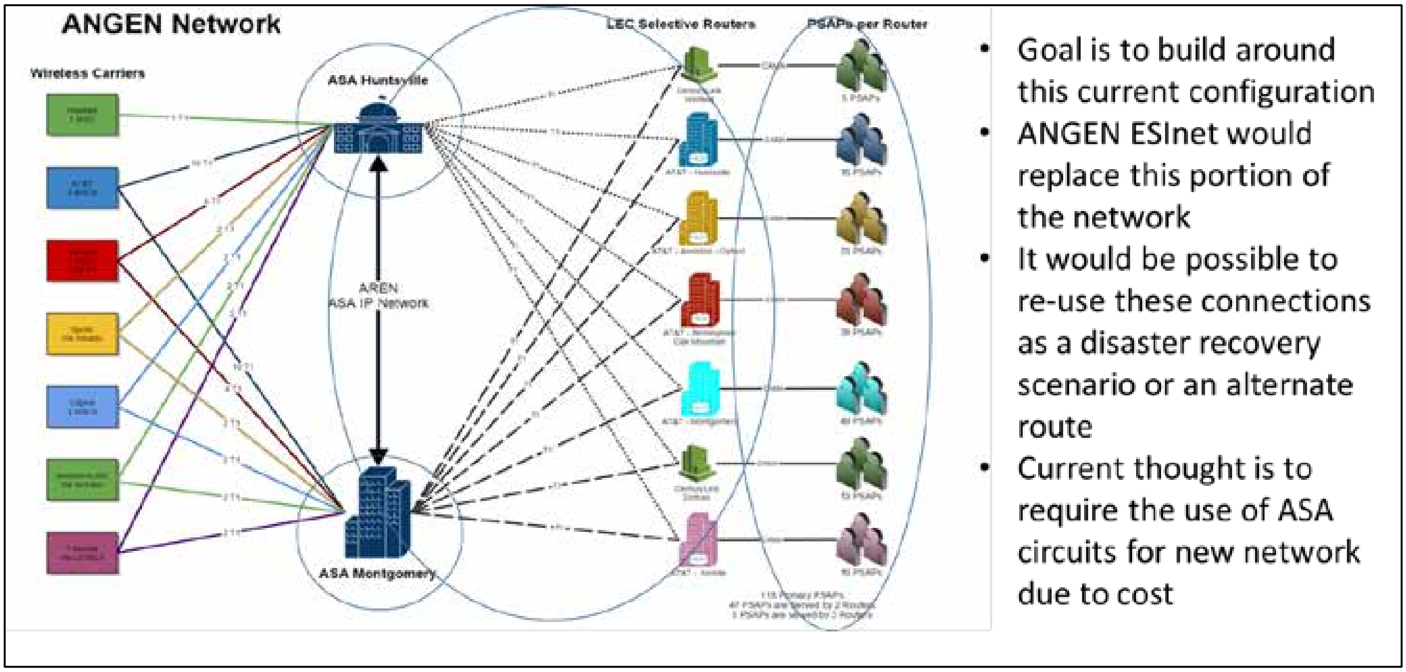


Figure 6 - ANGEN ESInet Goals and Design Considerations

PSAP Information

Alabama is made up of 67 counties with a population of 4,850,000. This population is served by 88 Emergency Communications Districts representing 118 Primary PSAPs. For the purposes of this procurement, the following number of PSAPs are within the scope of this project and anticipated services.

1. There are 118 Primary PSAP's in the state.
2. There are 88 ECDs in the state

For the purposes of this procurement, any solutions or services that require provisioning to a PSAP, the number of PSAPs to be considered will be 118 as explained and derived above.

All of the 118 PSAPs are currently operational and fully deployed E9-1-1, Wireless Phase 1 and Phase 2.

Specific address information for each of the 118 Alabama PSAPs covered by this RFP will be made available to qualified respondents as appropriate and necessary for the refinement of costs and designs of proposed solution(s).

Comply. The FairPoint solution complies with the above request.

2.2 ANGEN ESINET SERVICES

The Board seeks network and operations services from a provider or a combination of providers to implement an Emergency Services IP-network (ESInet) to deliver or support the delivery of voice, text, or other emergency communications related data to the PSAP's throughout Alabama and in the adjoining states of MS, TN, GA and FL or as may be designated by the Board.

The ESInet(s) will be the foundational technology for keeping Alabama on the forefront of the transition to Next Generation 9-1-1 features, functions and capabilities during the term of the contract and will form the core technology of the ANGEN ecosystem.

Respondents interested in providing ESInet services must design and provide an IP based network solution with the ability to connect and interconnect to other regional, state and potentially national emergency services networks (i.e. FirstNet).

The proposed solution must *at a minimum* deliver the same functionality of the current ANGEN system as detailed in Section 1 of this specification.

Successful respondents will provide all services necessary for the development, implementation operation, monitoring and maintenance of their proposed ESInet including:

- Design, installation, testing, interconnection and operation of ESInet components required to operate or support the operation of ANGEN
- Maintenance and repair of those elements of the ESInet and interconnections owned, operated, installed or controlled by Respondents as part of their solution
- Completion of as built drawings, sketches and/or schematic materials related to the ESInet
- A data collection and reporting system for all ESInet elements so operational metrics of the ESInet can be monitored, reported and analyzed

Comply. FairPoint understands and throughout this response all of the requirements contained in this section will be addressed. During the design phase of the project we will assure that our proposed architecture meets all facets of functionality that ANGEN requires. FairPoint will create all as-built documentation and provide all training, maintenance, interconnections (as described in a detailed design document developed during phase 2 of this process) and other associated functionality necessary for the ESInet.

Finally a centralized data collection system shall be used such that critical operational metrics of the ESInet itself are captured and monitored/analyzed.

2.3 ANGEN ESINET ARCHITECTURE REQUIREMENTS

Any ESInet proposed in response to this RFP must conform to NENA 08-506, Emergency Services IP Network Design for NG9-1-1 (ESIND) and other industry standards as referenced in Section 1 of this specification.

ESInet design requirements include but are not limited to:

- The ESInet shall be designed with as few single points of failure as practical. Diverse network elements and paths, redundant equipment, and other technical and physical means will be used to reduce the potential for total loss of service where a single point of failure is not reasonably avoidable.
- The ESInet shall be designed with a minimum level of bandwidth to support delivery of calls and associated data from originating service providers or other integrated ESInets to the PSAPs.

- The ESInet shall be designed and deployed using a highly reliable and redundant architecture.
- Availability, diversity, redundancy and resiliency shall be the guiding ESInet design principals
- The ESInet design shall support the ability to automatically reroute traffic to alternate routes or systems in order to bypass network outages and system failures.
- The ESInet design shall offer the ability to prioritize critical traffic at multiple levels by importance of applications or users
- The ESInet design shall be scalable and have the ability to scale without adverse effects on performance or costs
- The ESInet shall be designed to support a guaranteed Quality of Service (QoS) level
- The ESInet shall be designed to support the automatic adjustment of traffic priorities in order to meet established QoS levels as defined in NENA 08-003
- The ESInet design shall support the ability to ensure performance through the use of traffic shaping and traffic policing.
- The ESInet shall be designed to operate on a 24x7x365 basis.
- An ESInet design that utilizes the most cost effective and feasible combination of transport technologies available to deliver the bandwidth required.
- The ESInet design shall support the ability to handle legacy 9-1-1 calls and ensure the capability of handling future call types.

Comply. The proposed ESInet will conform to the latest NENA 08-506 ESIND document. The latest version was revised in 2015 and several members of the Fairpoint response team were active members on that revision committee. Input to the revised document incorporated lessons learned by FairPoint and its team when implementing similar ESInets in Maine and Vermont.

2.3.1 ESINET NETWORK DIAGRAM(S)

Respondents shall provide Network Diagrams to support their narrative that accurately displays how their proposed ESInet will be configured and deployed.

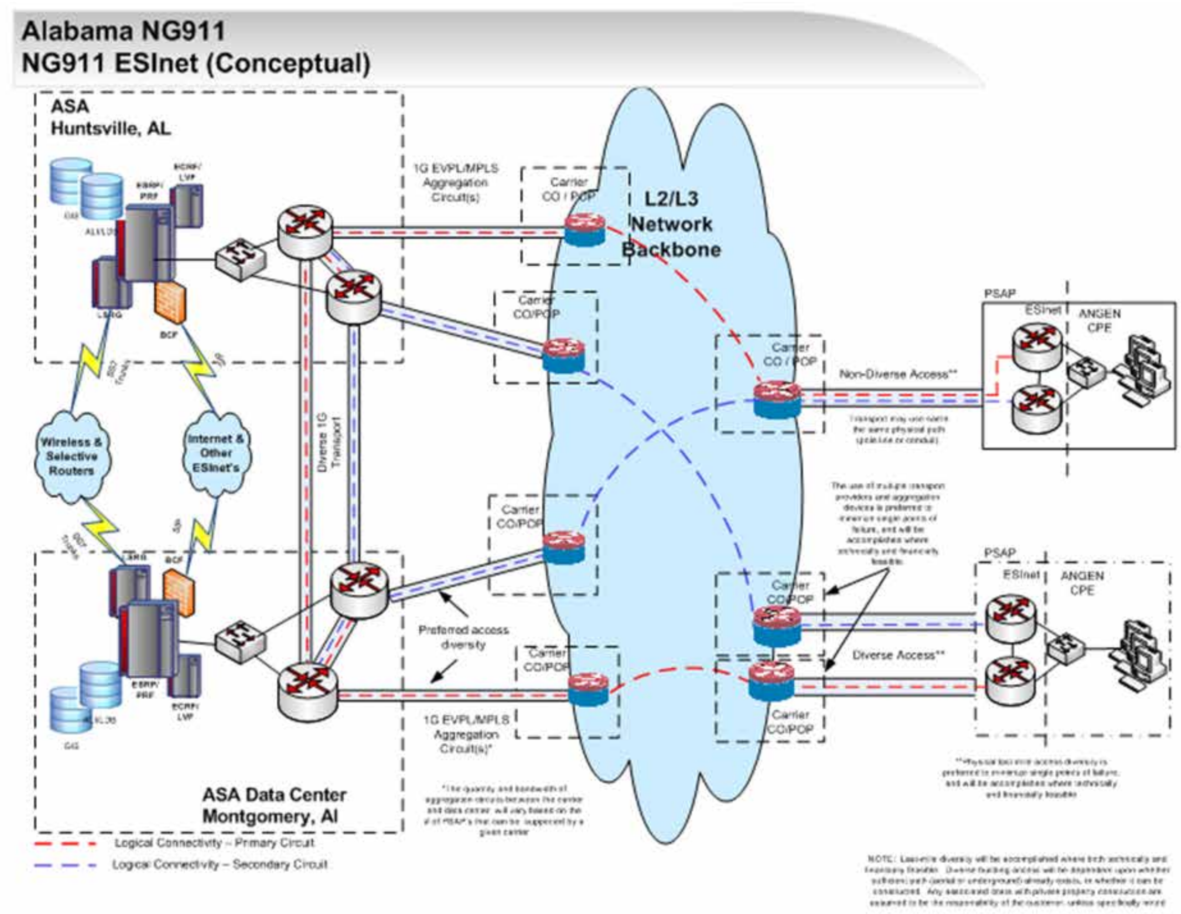
The Network Diagrams shall display information about the core ESInet design, the configuration, the interconnections and the access network links so that the diagram can be used as a basis for evaluation and understanding.

ESInet diagrams submitted shall depict, where appropriate, the following aspects of the proposed ESInet solution:

- Network map(s)/Diagram(s)
  - Logical topologies
  - Physical topologies
- Physical and logical path diversity
- Network ingress and egress points
- Connection types
- Capacities/estimated bandwidth

- Interconnection locations:
    - Node locations
    - Data Centers
    - Aggregation points (both carrier and local access)
- Additional technologies and interfaces as necessary

Comply. Please see below for our proposed ESInet diagram:



2.4 ANGEN ESINET FEATURES AND FUNCTIONS

Respondents shall provide a narrative of their proposed ESInet with enough detail to ensure proper evaluation, using diagrams to provide an appropriate level of detail and common language that explains how their proposed ESInet solution is capable of supporting legacy 9-1-1 network options, NG9-1-1, current and evolving standards, and how it will accommodate the integration of other networks operated by other providers that comprise the ANGEN ecosystem.

The narrative will address each of the features or functions listed below (in no particular order):

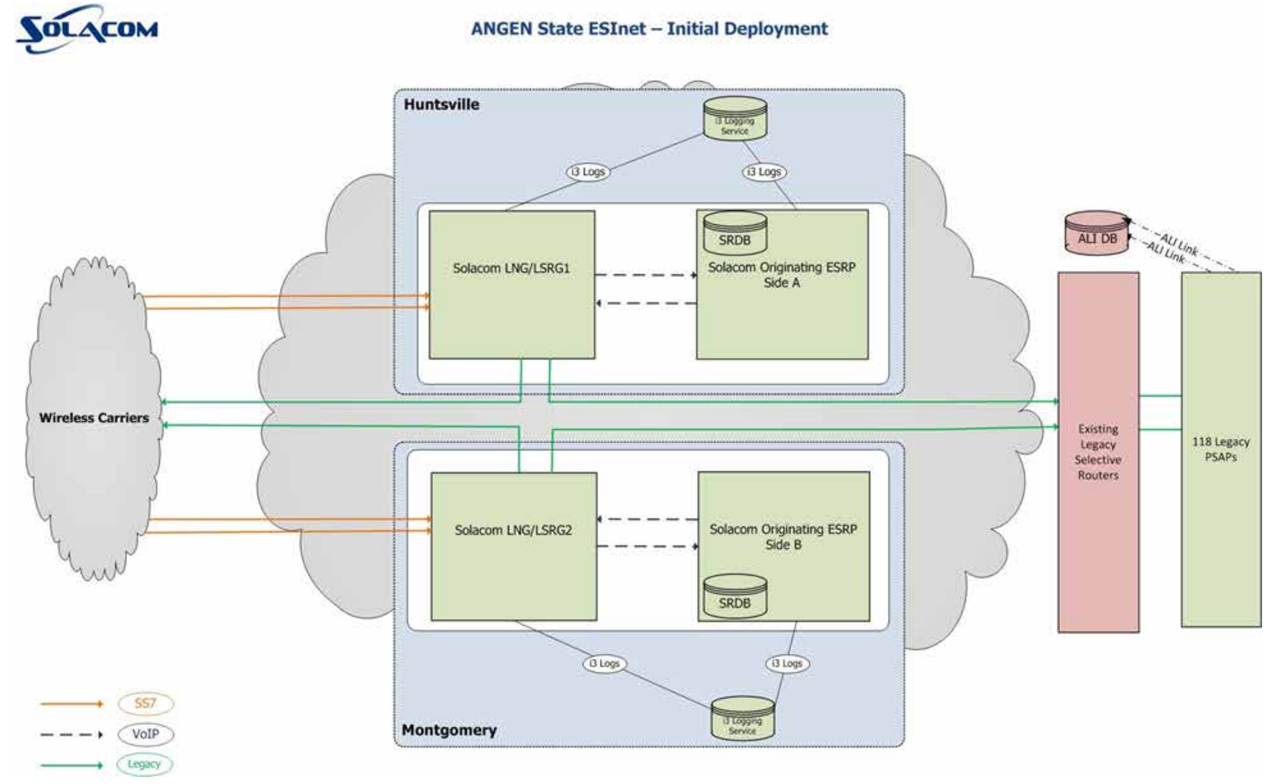
1. Operations
2. Security (both physical and logical)

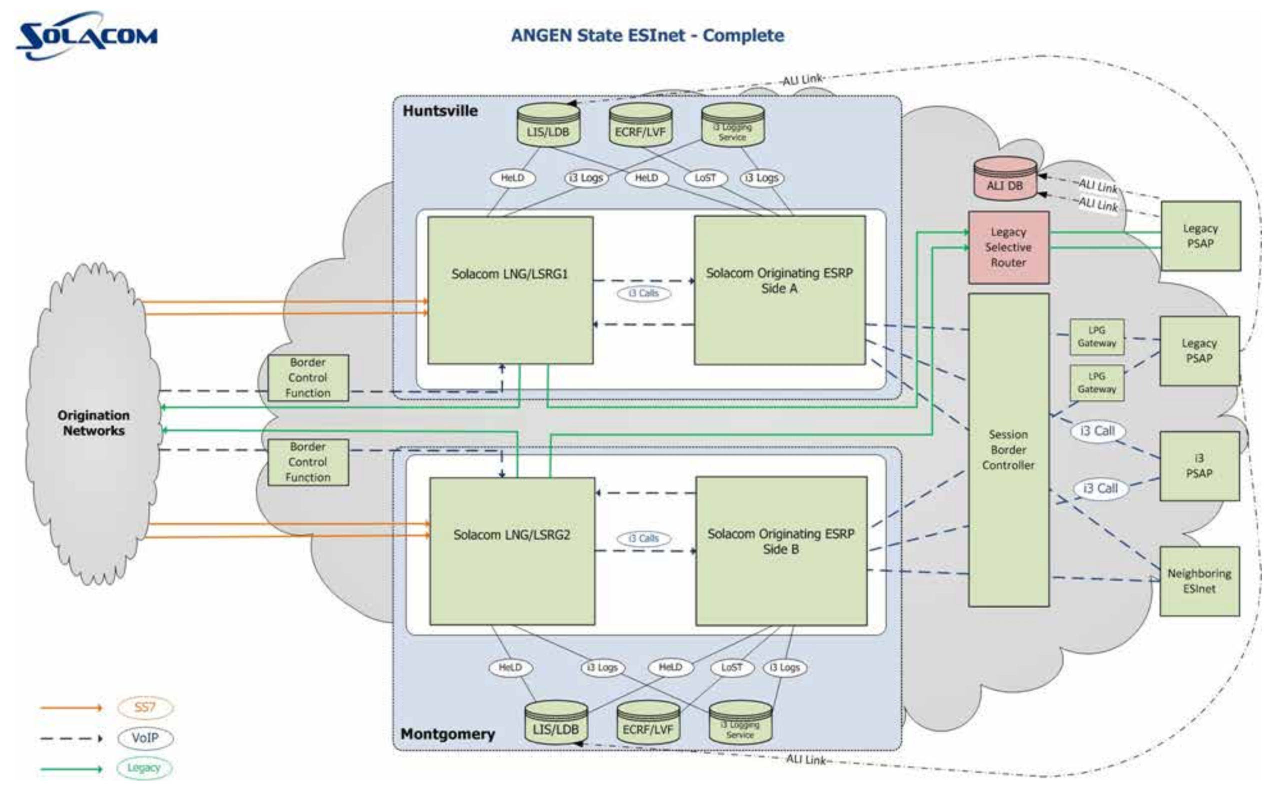
3. Availability
4. Monitoring
5. Alarming
6. Maintenance
7. Disaster Recovery
8. Service restoration
9. Outage mitigation
10. Core routing
11. Interface to Hosted solutions
12. Fault zone design methodology

Respondents shall provide a list and a description of all protocols or routing functions that are used in the ESInet infrastructure and ensure that they conform to NENA Detailed Functional and Interface Standards for the NENA i3 Solution NENA STA-010 standards. The proposed ESInet solution must be aligned with NENA 08-003 to ensure that the proposed network does not conflict with open standards specifications.

Respondents shall provide the system narrative immediately following this Section 2.4. Additional requirements and specific technical specifications are detailed in Sections 2.4.1 – 2.4.13

Comply. The proposed ESInet provides the redundant IP transport that interconnects the NG91-1 Functional Elements, as defined by NENA 08-003, required to provide the call routing function. The proposed solution contains redundant Functional Elements ("FE"s) spread over the two data centers such that the loss of any one component would not interrupt the routing of 9-1-1 calls. The solution architecture is such that 99.999% availability is achieved. In addition, because of the geo-diverse configuration, the solution can survive natural events that could cause the failure of an entire data center. The following diagram illustrates the FE configurations.


SOLACOM
ANGEN State ESInet – Initial Deployment
Huntsville
i3 Logging Service
i3 Logs
i3 Logs
SRDB
Solacom LNG/LSRG1
Solacom Originating ESRP Side A
ALI DB
ALI Link
ALI Link
Wireless Carriers
Existing Legacy Selective Routers
118 Legacy PSAPs
Solacom LNG/LSRG2
Solacom Originating ESRP Side B
SRDB
i3 Logs
i3 Logs
i3 Logging Service
Montgomery
SS7
VoIP
Legacy


SOLACOM
ANGEN State ESInet - Complete
ALI Link
Huntsville
LIS/LDB
ECRF/LVF
i3 Logging Service
HeLD
i3 Logs
HeLD
LoST
i3 Logs
ALI DB
ALI Link
ALI Link
Legacy Selective Router
Legacy PSAP
Solacom LNG/LSRG1
i3 Calls
Solacom Originating ESRP Side A
LPG Gateway
LPG Gateway
Legacy PSAP
Border Control Function
Origination Networks
Border Control Function
Session Border Controller
i3 Call
i3 PSAP
i3 Call
Solacom LNG/LSRG2
i3 Calls
Solacom Originating ESRP Side B
Neighboring ESInet
HeLD
i3 Logs
HeLD
LoST
i3 Logs
Montgomery
LIS/LDB
ECRF/LVF
i3 Logging Service
ALI Link
SS7
VoIP
Legacy

The core Functional Elements involved in call routing included in the proposed solution are:

1) Combined Legacy Network Gateway (LNG) and Legacy Selective Router Gateway (LSRG)

2) Originating -Emergency Services Routing Proxy (ESRP)

3) Caller location databases NG ALI and LIS

4) ECRF/LVF database

5) Border Control Function consisting of Firewalls and Session Border Controllers (SBC)

6) Network based Legacy PSAP Gateways (LPG)

The operation of the FEs to execute the call routing function can be briefly summarized as follows:

- The LNG/LSRG directly terminates SS7 and PRI links from carriers that accept the 9-1-1 calls. The LNG/LSRG then converts the 9-1-1 calls to NENA compliant VoIP/SIP calls with embedded caller location information. The caller location has been determined either by a legacy ALI query or a NG9-1-1 HELD query into the caller location databases. The proposed system has been designed to allow simultaneous i2 and i3 operation. The NENA 08-003 VoIP/SIP compliant messaging scheme calls for the use of a G.711 codec. Compression codecs such as G.729 and G.726 are also available but to ensure uniform audio quality and ease the audio quality monitoring, the default codec (G.711) is per the NENA recommendation.
- The VoIP/SIP call is then sent to the Originating ESRP which will assign the call its NENA defined MasterIncidentID, and, execute a LoST query to the ECRF that will identify the responsible PSAP that should receive the call. The ESRP then determines the route to the specified PSAP.
    - o If the route indicates that the PSAP can only be reached via the existing legacy Carrier selective router ("SRs"), the ESRP will send the call to the LSRG which will convert the call back to a SS7/T1 call and send it to the correct SR for delivery to the PSAP.
    - o If the PSAP can be reached via a LPG, the call is sent to the PSAP's LPG which converts the call back to CAMA for the PSAP controller. The PSAP controller executes a standard ALI query to the NG ALI location database to recover the caller location.
    - o If the PSAP is an i3 PSAP the ESRP will send the call directly to the PSAP using i3 VoIP/SIP with the location of the call.
    - o If the PSAP is on a neighboring ESInet and not reachable via the Alabama legacy SRs, the ESRP will route the call over IP to the SBC which will provide the secure interconnection point to the neighboring ESInet. The SBC can also carry out any IPv4- IPv6 mapping required between the two ESInets.
- The entire call detail records for the call are logged per the i3 Logging Service FE. The Logging Service FE sends all events associated with a call including all databases queries/response, call routing, alternative routing, answer times, transfers, etc. The logging services provide the ability to recreate any call, and its handling by all FE in the proposed solution, as all logged events contain the globally unique MasterIncidentID of the call as assigned by the Originating ESRP.

Critical aspects of the proposed system are continuously monitored. As an example, the following image shows a graphical representation of the Application Server CPU usage, memory usage, processes, threads and uptime dashboards.

The centralized monitoring functionality provided with the proposed solution carries out similar monitoring of all active elements of the ESInet(e.g. routers, switches) and the previously listed FEs. This monitoring allows for the rapid detection and correction of failures or degradations within the solution.

The monitoring center also collects and acts on all Alarms issued by individual FEs that would indicate a failure or issue with the function of the FE.

Repairs and planned maintenance can be carried out without impacting routing services as all components are redundant and engineered so that a component can be taken out of service, repaired/upgraded and then returned to active service.

All remote access to FEs, required to carry out the repairs/upgrades within the proposed solution will be through Firewall systems that will provide the required access authorization protection. Also, the individual FEs will log all remote accesses that take place.

The proposed solution does include Disaster Recovery ("DR") functionality. The Disaster Recovery system maintains current images of all software with the solution. Should a server fail the DR system can rebuild the application on spare server and return the failed server/application into full operation within hours of the failure.

2.4.1 VOLUME AND PERFORMANCE

The ESInet shall be designed to handle, at a minimum, **4,000,000 calls annually**, and an estimated 1,000,000 emergency text messages (inbound and outbound) initially.

The wireless traffic high month was 6,617 hours of talk-time.

The ESInet shall be capable of increasing capacity by 10 percent annually over the initial term of the contract.

Comply. The ESInet and associated FE, i.e., originating ESRP, LNG, and SBCs, including the ALI database have all been sized to handle the current call volume with the requested 10% annual growth.

2.4.2 NETWORK AVAILABILITY & RELIABILITY

The proposed system, including all subsystems, shall be available a minimum of 99.999% of the time when measured on a 24x7x365 basis during a calendar year. Respondents must provide a description of how the availability and reliability will be measured and include a Service Level Agreement (SLA) that is consistent with the recommendations of ESIND and NENA08-003.

Respondents shall explain how the system will achieve this level of availability.

Comply. The system shall achieve 5-9s of reliability by using redundant and diverse network hardware components and data circuits where available. In addition the proposed solution includes 4 LNG/ESRP functional elements deployed in a Geo Diverse manner to maximize call delivery reliability. The choice of 4 systems has been deemed to be the best compromise between cost and reliability. Service Level Agreements will be negotiated post award.

2.4.3 INTERCONNECTION OF OTHER NETWORKS AND SYSTEMS

The proposed solution must be designed to allow for interconnection to other ESInet implementations, PSAP systems (CAD, logging recorders, etc.), criminal justice networks, other 9-1-1 networks or other secure public safety technologies as may be designated by the Board. The proposed solution must ensure “open standards” and describe provisions to collaborate with potential interconnected solutions.

Respondents shall describe the ability for their ESInet solution to interconnect and interoperate with other ESInet implementations, PSAP systems (CAD, logging recorders, etc.), criminal justice networks, other 9-1-1 networks or other secure public safety technologies as may be designated by the Board.

Any IP network approved by the Board to connect to the ESInet shall be required to comply with appropriate ESInet, NENA, and National and Open Standards described in this proposal or as may be current at the time of proposed interconnection.

The ESInet shall be configured in a manner that Board approved edge site Local Area Networks (LANs), such as computer aided dispatch (CAD) systems and/or other Public Safety systems may be connected to utilize the functionality created by the ESInet.

Respondents shall be accountable for ensuring that additional networks meet the minimum qualifications for interconnection presented in this specification and that security of ANGEN is maintained through collaboration with each potential network provider.

Comply. All resources requiring external access will be provisioned with globally unique IPv4 and IPv6 (where supported) addresses to ensure interoperability across routing domains and autonomous systems. Unique source / destination addressing will permit us to use the many common formats for business to business connectivity including, but not limited to, purchased point to point WAN, or Virtual Private Network ("VPN") tunnels over the internet.

The proposed solution includes Border Control Functions (BCF) in the form of Session Border Controllers (SBC) and Firewalls. All voice traffic between the ANGEN ESInet and other ESInets/PSAPs will flow through the two redundant SBC units. Firewalls will be used to connect to criminal justice networks as required. Connections to CAD, logging recorder, etc will be secured as no data from these end points will be accepted, data will only be sent to these systems.

2.4.4 QUALITY OF SERVICE FEATURES

Any proposed ESInet shall have quality of service (QoS) features suitable for the real-time transport of VoIP traffic requesting emergency services (as defined in NENA 08-003).

Respondents shall describe their method of managing the QoS features defined below and offer an explanation of how their proposed ESInet will perform to these capabilities

The following ESInet performance requirements are taken directly from NENA 08-506 ESIND:

1. **Packet Latency (50 ms)**
   - Packet Latency shall average a round trip time of fifty (50) milliseconds.
2. **Packet Loss (5%)**
   - Respondents shall design the ESInet without oversubscription and keep the packet loss budget under 5%.
3. **Jitter (20 ms)**
   - Jitter shall not exceed twenty (20) milliseconds.

Respondents shall provide an explanation of the proposed solutions QoS capability that minimizes congestion, mitigates errors and ensures the delivery of Real-Time Transport Protocol (RTP) packets across the ESInet.

Comply. Based on the capabilities of the of the local network and backbone providers, the system shall be designed to ensure that latency does not exceed 50 milliseconds round trip between nodes. Packet loss will be minimal, usually, much lower than 3% and jitter will be bound to 20 ms. Quality of Service ("QoS") along with redundant and well-designed (capacity, connectivity etc) data circuits shall be used to meet this requirement. A failure to meet these requirements will be handled in the parties' contract and negotiated post award.

2.4.5 TRAFFIC PRIORITIZATION NARRATIVE

Respondents shall describe how their proposed solution manages the prioritization of traffic across the ESInet, how QoS is implemented and describe the interoperability of the IP routing mechanisms.

Comply. The QoS will be crafted following the best practices as defined in NENA 08-003 which describes a mechanism for establishing per hop behavior for every packet associated with a 9-1-1 RTP session. This mechanism has been employed in the Vermont and Maine NG9-1-1 solutions with great success and the Differentiated Services Code Point ("DSCP") scheme used in those solutions is what caused the authors of the 08-003 document to re-think the scheme now supported in v2 of the document.

The ALI database solution scales by boosting processing and storage capacity of underlying platform.

2.4.6 SCALABILITY

The Board seeks a solution that will accommodate bandwidth changes, additional sites to be added or sites removed, and to interconnect to other regional or statewide ESInets without downtime or substantial increase in operating costs.

Respondents shall describe how their proposed ESInet design permits scalability.

Comply. FairPoint intends to leverage a scalable IP backbone with Ethernet access that would allow us to efficiently scale the network to support bandwidth changes with minimal downtime. Leveraging this type of infrastructure will allow us to quickly scale bandwidth, as well as add and remove locations without significant implications associated with legacy transport services. The cost associated with this type of activity would have to be evaluated on a case-by-case basis to determine the overall cost due to the need for additional equipment and/or potential for construction necessary to provide service.

2.4.7 REDUNDANCY AND SURVIVABILITY

The ESInet shall be configured to survive natural or man-made disasters at every core site (Central Office, Point of Presence, Data Center or other central switching location) and shall provide a description of survivable capabilities at all edge sites including PSAPs

Additional requirements for the reliability design of the ESInet shall be guided by the FCC Report and Order **FCC 13-158 – Improving 911 Reliability and Reliability and Continuity of Communications Networks, Including Broadband Technologies.**

Where available, the ESInet network core solution and redundantly connected sites shall include physically diverse routes and physically diverse building entrances.

Respondents shall provide a detailed description of all single points of failure or specific locations that lack diversity and/or redundancy present within their proposed solution. This includes locations within the proposed ESInet where redundant components, network resources and physical connections **DO NOT** exist.

Respondents shall explain in detail the redundancy and survivability measures proposed for the ESInet and the core network components.

Comply. FairPoint will configure the solution to survive natural or man-made disasters at every core site (Central Office, Point of Presence, Data Center or other central switching location). Currently the only single point of failure to be known with this design is the possibility of using single geographic paths for individual PSAPs. It would be the preference of FairPoint to provision redundant IP links to the larger PSAPs and then ensure that physical network diversity exists as well at those sites. During a disaster situation calls can be re-directed by using the PRF to any other PSAP within the state or, to any interconnected ESInet that may have an administrative agreement in place with ANGEN to receive those calls. While physical diversity is important we believe that having the call complete should be the paramount driving factor in assuring good system design. This philosophy allows for a holistic approach to system design which includes those requirements described in FCC 13-158.

At all points within the core network redundant routers and switches shall be deployed. We will be using redundant data center facilities (which will likely be the proposed ASA facilities) with sufficient geo-diversity to assure that the likelihood of both being impacted by the same event is slim. We would look to assure that data centers being used for this solution are at least Tier 3 and compliant with SOC2 requirements.

2.4.8 BANDWIDTH

Respondents shall identify the minimum bandwidth required to handle all anticipated voice and data traffic of the system for the next five (5) years.

At a minimum Respondents shall base their bandwidth estimates on the delivery of all calls and associated data to the PSAP.

In addition, the bandwidth should include requirements for a fully functioning network with all redundant connections in service.

Comply. At a minimum each PSAP shall be engineered for 10Mbps of bandwidth provisioned in a diverse manner where possible. It will be necessary to assure that this is adequate bandwidth as reasonably predicted at the time of the projects kick-off. Changes in functionality or usage behavior can have massive impact on bandwidth need and are not able to be reasonably forecasted until the specifics of a change in usage are identified. We estimate that a moderate growth of 10% per year is reasonable however; installing equipment and links to handle any amount of unforeseen bandwidth needs to be explored further because it may not be the most prudent method to proceed.

2.4.8.1 PSAP BANDWIDTH

Respondents shall provide a solution that can deliver adequate bandwidth to each PSAP for 9-1-1 voice calls, text to 9-1-1, data communications, and a sufficient surge factor. The growth factor used must conform to the current ANGEN model.

The minimum access portion of the network from the ESInet to the PSAP shall be **10 Megabits** per second (Mbps).

Respondents shall continually monitor the bandwidth for the duration of the contract and dynamically increase the bandwidth when appropriate. The selected vendor will be required to supply a SLA consistent with the existing ANGEN solution. A description or sample of the SLA must be included in the response.

Comply. Each PSAP to ESInet link shall be designed at a minimum of 10Megabits per second (Mbps). As stated previously network metrics will be used to analyze the bandwidth being used and allow for adjustments as needed. In addition to the bandwidth monitoring capabilities the proposed system contains Originating ESRPs that can be configured to limit the simultaneous calls sent to a PSAP. If the pre-set limit is reached, calls will be alternatively routed to designated PSAPs. This will insure that the available voice bandwidth to a PSAP is not exceeded. It also allows for monitoring when such overflow events occur which can be used to either trigger increased IP bandwidth to the PSAP or the addition of PSAP call capacity handling.

2.4.8.2 BANDWIDTH EXPANSION

The ESInet must be capable of expanding as needed throughout the duration of the contract period.

Comply. The data circuits shall allow for a dynamic increase in bandwidth as required. Additional costs will be incurred as changes are made.

2.4.8.3 BANDWIDTH SHARING

Respondents shall describe how their QoS scheme ensures that separate RTP sessions are not sharing bandwidth.

Since the ESInet may be used for additional services, respondents must provide a description of how bandwidth is prioritized and separated from normal IP traffic.

Comply. We will use diffserv controlled QoS. Diffserv puts codes (DSCPs) in the type of service (“tos”) byte of an IP packet. The router looks at the value in that byte and applies a "per hop behavior" or PHB to it. There are various defined PHBs including "expedited forwarding" and "assured forwarding", the latter of which has several classes that basically specify how often a packet with that class should experience loss relative to other packets. So you mark traffic with a DSCP and the router applies the PHB to that DSCP. One way to use diffserv is to mark the kind of traffic you have, and then assign a PHB to that kind of traffic. That's what section 3.6 does in NENA 08-003. It recommends marking traffic with code points for "9-1-1 signaling", "voice media", "video media", etc. To that end the following markings will be used to assure that 9-1-1 traffic can co-exist and gets properly marked without impacting other traffic on the network:

DSCP	USE	PHB
3	ROUTINE TRAFFIC	DEFAULT
7	9-1-1 SIGNALING	AF12
11	9-1-1 TEXT MEDIA	AF12
15	9-1-1 AUDIO MEDIA	EF
19	9-1-1 VIDEO MEDIA	AF11

23	9-1-1 NON-HUMAN-INITIATED CALL	AF21
27	INTRA ESINET EVENTS	AF21
31	INTRA ESINET OTHER 9-1-1 TRAFFIC	AF22

You'll note that this is contrary to NENA 08-003 v1 as the SME's at FairPoint discovered the original flaw with the scheme and helped to update the document (v2) with the appropriate markings as depicted here.

Also, a minimum amount of bandwidth will be reserved to handle the audio for the total expected call volume at each PSAP plus a small buffer. However, during times of congestion priority will be given based on the diffserv markings above.

2.4.8.4 LOSS OF BANDWIDTH

Respondents shall configure the dynamic routing protocol to prevent serious loss of bandwidth, denial of service due to routing table updates or other behavior while providing automatic rerouting as quickly as is reasonably possible.

Comply. FairPoint understands and will comply.

2.4.9 IP ROUTING

The Board requests that Respondents propose the most efficient and effective IP routing solution that meets the intent of this RFP.

As the transition from IP version 4 (IPv4) and IP version 6 (IPv6) is on-going, the proposed IP network infrastructure shall be configured to support and route both IPv4 and transition into IPv6.

Respondents shall describe how their ESInet configuration meets an ability to associate IPv4 and IPv6 in a seamless routing configuration.

Respondents must also describe how a combined IPv4 and IPv6 platform will be managed and monitored to avoid potential errors.

Comply. The network shall be designed to support a dual-stacked IPv4/v6 arrangement. An IPv6 address space will be provided for the ESInet from the 2001::/7 block. If an IPv6 /48 address allocation from the American Registry for Internet Numbers ("ARIN") is required, FairPoint will assist ANGEN with registering the address space. Otherwise, if the address space is registered directly with FairPoint, it could limit ANGEN's future use of it.

FairPoint Communications will work with ANGEN to create an appropriate IPv6 address schema, following the considerations of RFC 5375. As noted in this RFC: A site that wishes to use ULAs (private local IP addresses) can have (a) multiple /48 prefixes (e.g., a /44), (b) one /48, or (c) a less-than-/48 prefix (e.g., a /56 or /64). In all of the above cases, the ULAs can be randomly chosen according to the principles specified in [RFC4193]. However, in case (a) the use of randomly chosen ULAs will provide suboptimal aggregation capabilities. An allocation from ARIN to the State of Alabama for a provider independent space will be requested for addressing along with a BGP ASN assignment IPv4 /23 for Internet and Intranet connectivity.

OSPFv3 and will be used to support IPv6 and IPv4 internal routing and BGP will be used to support external connectivity to the Internet and other external networks.

We rely on the native reporting mechanisms inherent in the routers to assure that any conflicts or errors are identified as soon as possible during the network stage of testing pre-implementation.

2.4.9.1 INTERNET PROTOCOL PACKET DELIVERY

Respondents shall ensure that the IP routing protocol used in the ESInet provides delivery of IP packets from end to end. All IP information from one IP device to another IP device within the network must be guaranteed.

Comply. IP/Ethernet is a lossy protocol and is inherently incapable of guaranteeing delivery of every bit sent. Layer 4 protocols are traditionally used to handle lost packet detection and retransmission in the case of TCP based flows. In the case of VoIP flows using RTP and variations thereof, error concealment is built into the protocol to handle small amounts of packet loss and packets received out of order, to produce a nominal user experience.

2.4.9.2 IP ROUTING PROBLEM RESOLUTION

Respondents shall describe how their proposed solution will interoperate with other operators of interconnected networks and will cooperate with those providers to resolve IP routing problems.

The selected vendor will be responsible for ensuring that discrepancies or deviations from standards within the respondent's network are documented and corrective action taken to overcome conflicts with other operators.

Comply. FairPoint understands and will comply. We will use traditional network to network interface ("NNI") interconnection techniques which are required under NENA 08-003 and other relevant standards for network interconnectivity. All traffic hand-offs for call related packets shall be SBC to SBC and we shall also employ a firewall(s) to assure optimum security and safety for the ANGEN ESInet. Interconnections requiring routing will be managed by BGP and official (ARIN WHOIS) records as to IP address ownership will determine administrative ownership of provisioning and said space.

We will work with other network operators if problems arise to assure that problems and conflicts are corrected efficiently such that they do not recur.

2.4.9.3 AUTOMATIC INTERNET PROTOCOL REROUTING

Respondents shall describe how their proposed solution minimizes the impact of routing errors within the network by automatically rerouting past failures or interruptions.

Comply. FairPoint shall implement OSPF as the internal Internet routing Protocol. OSPF allows for a complete network "snap shot" view by all routers to understand any link outage on the system and then finds ways to avoid the problem. This differs from other interior routing protocols that are only aware of the link status to the next hop router. Under OSPF re-routes are more efficient and timely therefore minimizing the impact of routing errors. However, due to the size of this proposed network it may be necessary to implement a two-tier OSPF architecture. Additional information and research will be required. External connectivity would use BGP with full BGP tables to ensure soft failures are detected.

2.4.9.4 BACK TO BACK USER AGENT USAGE

Respondents must provide the ability to cross ESInet boundaries to ensure no limitations or dropping of packets. If SIP or RTP traffic needs to cross boundaries the traffic shall be handled by a back to back user agent (B2BUA); a type of session Boarder controller (SBC).

Respondents shall describe where B2BUAs are located within their solution and document the use of B2BUAs in their ESInet. Respondents must include an explanation of how the seamless delivery of traffic can be maintained using SIP and RTP between IPv6 and IPv4 networks.

Comply. The proposed solution includes redundant Session Border Controllers (SBCs) at each of the two datacenters. The SBCs provide full B2BUA functionality. All cross boundary VoIP/IP traffic will flow through the SBCs. In addition, the SBC can map between IPv6 and IPv4 networks thus maintaining seamless operation between networks.

2.4.9.5 SUBNET NUMBER ASSIGNMENTS

The Board may allow the integration of other networks with the ESInet. To avoid potential conflicts for address space, Respondents shall document and provide a report of all subnet address assignments to the Board prior to implementation of the ESInet.

Comply. FairPoint understands but must insist that any interconnections made between networks use globally unique IP addresses to prevent IP space conflicts as is best practice. This will require the services needing interconnection be stated upfront to ensure unique IP space is allocated to those servers as Network Address Translation ("NAT") should be avoided as it has a negative impact on NG9-1-1 traffic.

2.4.9.6 NETWORK STATIC ADDRESSING

Respondents shall ensure that static IP address routing is configured at all core network interfaces to avoid IP configuration errors.

Comply. Assuming this isn't referring to static routing, and instead the configuration of IP addresses directly on infrastructure interfaces, FairPoint will comply with IPv4 but hold some exception for IPv6. To deploy static addressing requires that all dynamic forms of address discovery be disabled which can prove to be a time intensive exercise. This is only worth doing for server type resources which require address stability despite the best practice behavior that remote hosts should be connecting via DNS entry and not directly by IP address. Currently a combination of stateless address auto-configuration

("SLAAC") and dynamic host configuration protocol ("DHCPv6") is the most common method for deploying IPv6 IPs, gateways, and domain name system ("DNS") resources to end points and other interfaces who do not typically receive and service inbound connections.

2.4.9.7 "LOOPBACK" INTERFACE

Respondents shall define an interface to allow for loopback testing within the ESInet. The loopback interface shall be installed at each network element to provide administration functions.

Comply.

2.4.10 DIVERSE NETWORK ENTRIES

The Board requires an ESInet design that incorporates diverse network entries to connection points and PSAPs. The Board recognizes that in several cases there may not be physically diverse entrances into PSAPs.

Where diverse entries are not possible; Respondents shall describe their methodology to implement the most diverse solution possible.

Respondents shall describe their methodology for providing redundancy through the use of diverse network entries where possible.

Comply. As stated previously FairPoint will strive to implement physically diverse connectivity to the PSAPs where it is available. If physical diversity is not available to the site we'll determine where on the network we can achieve maximum diversity up to the non-diverse segment. We will also deploy virtual circuit diversity on links creating north-south sub-interfaces that allow for some redundancy on a single physical connection. We will deploy redundant physical hardware (routers) at the PSAP to support those sites that can achieve physical diversity. The data centers will need to support physically diverse entrances for facilities to meet our connectivity requirements at the core.

2.4.11 NETWORK DEMARCATION POINT

Since the ESInet may be interconnected to other ESInets or facilities, Respondents shall establish demarcation points and the physical connection requirements for other operators to connect to the designated demarcation point.

In addition, demarcation between the Access Network facilities that connect an edge site, such as a PSAP site, to the Core Network, meet the Core Network at a point of interconnection (POI).

Respondents shall explain their preferred methodology for establishing network demarcation points.

Comply. Each demarc can be different as facilities differ all over the country however, our preferred demarc between the networks should be mutually accessible and ensure that the networks communicate from SBC to SBC. Typically no hardware components are shared. Connectivity between the two networks is typically a dedicated data circuit but we can also support other means of connectivity such as a VPN tunnel. All traffic is expected to be encrypted. The ANGEN BCF will be part of a DMZ within a firewall domain such that no part of the external facing network can access the trusted Firewall zones.

2.4.12 ACCESS NETWORK - EDGE SITE INTERFACE

The edge or PSAP sites should interface via 100 Megabit per second (Mbps) or faster port speed connection.

This interface to the local LAN is not considered a part of the NG9-1-1 network but should be considered as an element of the ESInet infrastructure.

Respondents shall describe the local area network (LAN) interface at each of the edge sites.

Comply. The routers at the PSAP edge will have 1Gbps interfaces supporting connectivity to the PSAP LAN as required and to the LPG devices. The routers will be sized appropriately for the WAN bandwidth provisioned in order to control costs and therefore in some cases may only support up 25Mbps of throughput. Minimally, access control list ("ACLs") will be used on the routers to assure that only planned devices are able to communicate to services on the ESInet. Non-used interfaces shall be shut off to guard against the physical connectivity of unplanned devices.

2.4.13 TIME SERVERS

A time server to synchronize all proposed network resources must be included in the proposed solution.

The time server must be connected to redundant time sources located within the ESInet capable of providing accuracy to 20.0 milliseconds (ms) of true time.

Respondents shall include a system for establishing network time protocol for the network in their proposal.

Comply. A Spectracom 9483 Netclock is included in the proposed solution which would be used to synchronize all the ESInet and FEs components within the solution. The Netclock unit has been used in other State-wide deployments of a NG9-1-1 solution and as such is field proven.

2.5 ANGEN NETWORK FAILOVER

The proposed solution must contain a network failover function that is capable of recognizing faults and automatically taking measures to avoid the fault. At a minimum the network shall provide for instant switch from failed or degraded components, systems, and networks.

The failover system shall conform to industry standards and shall comply with the other recommended standards presented in this RFP and must embrace open standards to maximize the fail over ability of all components.

Respondents shall describe in detail their methodology both operationally and technically for implementing automated network failover as a component of their proposed ESInet.

Comply. FairPoint shall deploy and periodically test an active-active failover mechanism such that all critical components requiring High Availability are constantly exercised. As previously described, critical network components shall be redundantly deployed and OSPF shall be used to identify failed routes and ensure traffic is quickly and efficiently re-routed around problem areas. Personnel will be staffing a primary and a back-up NOC to constantly monitor and analyze host and network based performance metrics to assure that traffic is moving smoothly and in an optimal manner at all layers. To the extent possible no proprietary standards will be used in this aspect of the solution.

2.6 ANGEN NETWORK SECURITY

Respondents shall propose a solution that meets a minimum level of security as defined by the national standards.

The Board requires that proposed solutions comply with the Federal Bureau of Investigation (FBI) Criminal Justice Information Services (CJIS) Security policies and practices.

They may be found at http://www.fbi.gov/about-us/cjis/cjis-security-policy-resource-center/view.

Respondents shall propose how their solution meets these security measures and how they comply with future changes to security measures to ensure that:

- Network operations are not disrupted due to a security breach
- Unauthorized individuals cannot access the network
- Least access policy is applied
- Data theft does not occur
- Monthly assessments of vulnerabilities and frequent scans for malicious activity occur
- Security incidents are documented, risks identified, responded to and mitigated
- Management of security changes are documented
- Security documentation is maintained to aid in forensic audits as necessary
- Security data is maintained as recovered and not modified or deleted
- Intrusion protection and Intrusion detection is implemented throughout the network to eliminate breach of security
- Protection from identify theft occurs

Comply.

Above all it is imperative that breaches in security do not disrupt day to day call flows. Therefore, FairPoint takes a least privileged approach to users of the system. All activity on the system will be logged and monitored. System ports will be managed appropriately. Unneeded ports will be disabled. Periodic security drills will occur to ensure that the systems and technicians monitoring the system are responsive. Intrusion Detection System (“IDS”) is part of the core aspect of all of our critical infrastructure and will be. An extensive change control process will be involved and will in part, be dedicated to the nature of any change on the security of the network. We have proven that the tactics provided by our security efforts on the NG9-1-1 systems in Maine and Vermont are effective and comprehensive and will eliminate any system performance issues that may occur on the proposed ANGEN ESInet.

Respondents shall include physical and logical security precautions in their proposed solution that meet the minimum criteria outlined above. This includes providing a description of any security based appliances necessary to meet the objectives including:

- Firewalls
- Access Control Lists
- Switches
- Routers
- Intrusion Protection devices
- Intrusion Detection devices
- Specialized Cabling

Respondents shall describe in detail how the proposed network is configured to withstand these attacks and protect the integrity of the entire 9-1-1 system.

Comply.

Throughout our response we have provided information on firewalls and routers to include the use of ACLs at interconnections at the PSAP sites. We will use a firewall and a SBC at each BCF. All open physical ports shall be shut off such that connecting a foreign device to the system shall have no impact. We will make use of an extensive DMZ on the firewalls used to maintain security between networks (ESInet to ESInet). Where necessary and available, we will utilize intrusion protection and detection devices typically on any IP NNI or on IP devices deployed in non-controlled environments (external to the data centers).

2.6.1 INTRUSION PREVENTION AND DETECTION

Respondents shall describe how their proposed intrusion prevention and detection capabilities provide alerting, logging and reporting of security threats by intruders to the network. In addition, the ability to document and log intrusions must be discussed within the response.

Comply. Along with performance events, security events are also routinely monitored on the system. The type of events that could trigger a security alarm range from a locked user account due to the wrong password being used all the way up to behavior that is odd for a functional element (such as an ECRF sending e-mail). Dependent on the severity of the breach a full range of notifications can occur from a simple log entry to a physical alarm being activated at the NOC.

2.6.2 ENCRYPTION

Respondents must include the advanced encryption standard (AES) on their proposed solution where appropriate.

Comply. We shall utilize AES256 or better to encrypt all network links.

2.6.3 NETWORK SECURITY STANDARDS

Respondents shall describe how their network security solution complies with the following Standards:

- NENA Security for Next-Generation 9-1-1 Standard (NG-SEC, document 75-001 dated February 6, 2010)
- Next Generation 9-1-1 Security (NG-SEC)Audit Checklist NENA 75-502 V1
- NENA i3 Technical Requirements Document 08-751
- NENA Detailed Functional and Interface Standards for NENA (i3) Solution Stage 3 08-003
- FBI Criminal Justice Information Services (CJIS) Security Policies
- http://www.fbi.gov/about-us/cjis/cjis-security-policy-resource-center/view

Comply.

The NENA 75-001 checklist (NENA 75-502) is routinely used to ensure that our network meets the security standards defined there. We will be using that for this project. The system is built in compliance with NENA 08-003 and as such picks up the architecture requirements in NENA 08-751 for security. We shall use the PSAP Credentialing Authority ("PCA") when it is available to obtain certificates for transactions between different functional elements on the system. Transactions shall be encrypted and audited. All CJIS security policies applicable to a system of this nature shall be followed and adhered to.

2.6.4 REMOTE ACCESS AND NETWORK SECURITY AND FIREWALLS

Respondents shall specify a firewall solution within its network that provides security and protection to the system. All such interfaces connected shall be in accordance with mandated security requirements.

a. Secure remote access shall be strictly controlled. Control will be enforced via remote access authentication using security tokens that provide one-time password authentication or public/private keys with strong pass-phrases.
b. Remote Access control will be enforced via network and system level auditing.

Comply. Firewalls will be used as part of the BCF and will manage remote connectivity to the system for external support organizations. All external networks connecting via the VPN will provide the opportunity for the FairPoint to audit the site for potential security issues. Once authorized, the remote sites shall be required to utilize two factor authentication to obtain access. RADIUS shall be used to authenticate remote users and all activity a user undertakes on the ESInet shall monitored/recorded audited as required.

All remote access to the solution's LNG, ERSP, SBC and Location Databases will be via firewalls and secure authentication. All access will be logged.

AL-NG9-1-1-RFP-16-001 ATTACHMENT D- Technical Specifications

SECTION 3 ANGEN SPECIFIC REQUIREMENTS

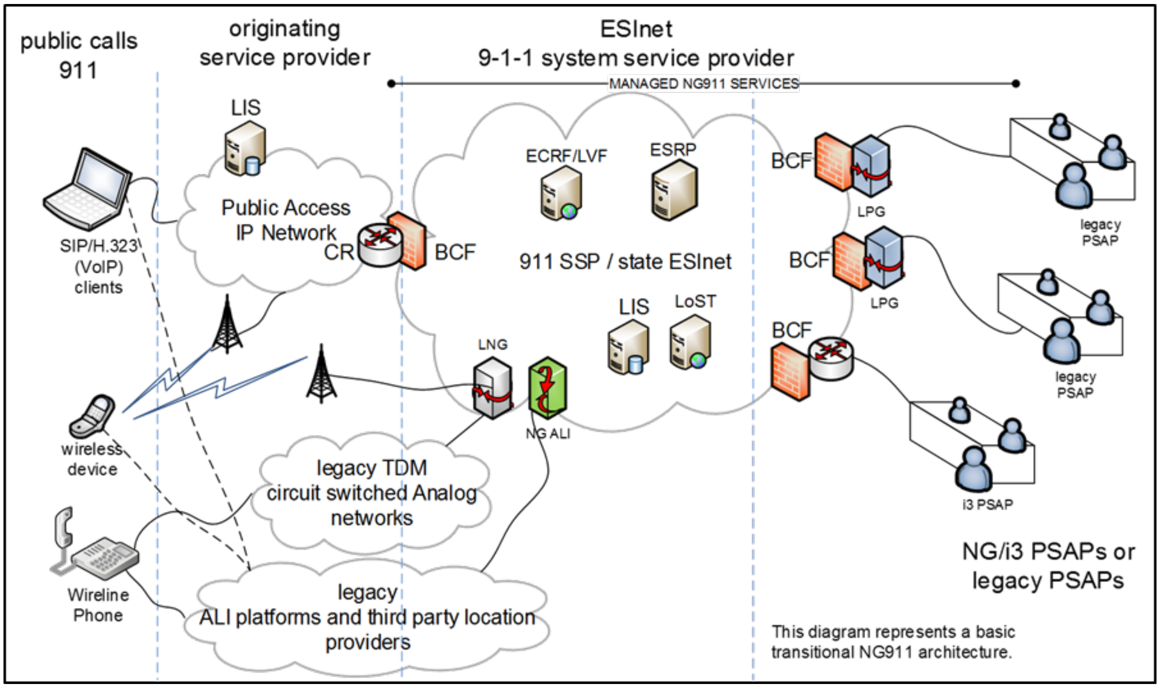


Figure 7 - ANGEN Conceptual Design Diagram

3.1 SYSTEM SERVICE PROVIDER COORDINATION REQUIREMENTS

Successful Respondents will be required to coordinate with other service providers as necessary to operate a seamless solution in support of the operation of ANGEN.

Respondents will need to enter into Interconnection agreements which legally allow the connectivity and interconnection with other networks as well as other service providers throughout Alabama.

This includes but is not limited to LECs, CLECs, ILEC and all Wireless Carriers providing service in Alabama.

Respondents shall provide the Board with example agreements, relationships, licenses or other documents demonstrating Respondents legal ability to enter into such agreements.

Examples of interconnection and cooperative agreements with third parties include but are not limited to:

- pANI (psuedo ANI) and IP provider ALI records integration
- third party providers (TCS and Intrado) E2+ interfaces
- Inter-company ALI server connections (to AT&T, CBT)

Exception. FairPoint and its affiliates have a long history in the telecommunications industry. FairPoint affiliates also operate two 911 systems as the prime contractor in two other states. FairPoint is confident that it will be able to address this request at a later date.

To develop a complete response to this Section directly above FairPoint will need additional information from the State regarding the exact details of these out of state relationships and services. FairPoint can operate in any State necessary and enter into commercial arrangements as needed that are required to fulfill its obligations under this bid. FairPoint will provide details of the scope of any agreements, relationships, licenses or other documents as this process progresses.

3.2 INTERSTATE INTERCONNECTION REQUIREMENTS

Respondents must be capable of interconnecting with other SSPs in states other than Alabama. States that will need to be interconnected to ANGEN include:

- Florida
- Georgia
- Mississippi
- Tennessee

Respondents shall provide the Board with example agreements, relationships, licenses or other documents demonstrating Respondents legal ability to enter into such agreements in other states.

Respondents must provide an explanation of how these interstate and intrastate capabilities will be achieved.

Exception. See response to 3.1 directly above.

3.3 TEXT TO 9-1-1 REQUIREMENTS

The intent of this section is to specify a Text solution that is in compliance with the Alliance for Telecommunications Industry Solutions (ATIS) / Telecommunication Industry Association (TIA) J-STD-110, *Joint ATIS/TIA Native SMS to 9-1-1 Requirements & Architecture Specification* A J-STD-110 Standard.

The Board is looking for Respondents to provide a hosted solution for the processing of text-to-9-1-1 messages on Respondent's proposed ESInet.

The Board is seeking a text to 9-1-1 emergency telecommunications system that shall possess the highest degree of resiliency, reliability, redundancy, and service availability and conforms to current and evolving industry standard.

The system shall support the delivery of 9-1-1 text calls to all participating PSAPs located throughout Alabama.

Functionally the Board's desire is to have emergency text messages (text-to-9-1-1) from all wireless carriers aggregated from Respondents' proposed solution and forwarded to the appropriate PSAP. A TCC function for all of Alabama.

Conceptually the solution will allow a subscriber to a wireless service in the U.S. to send an emergency text to 9-1-1 while in the confines of the State of Alabama and that emergency text will be sent to the appropriate PSAP for answering and processing.

Respondents proposed solution(s) shall aggregate incoming Short Message Service (SMS) text messages from the public through one interface to all Text Control Centers (TCCs) provided by wireless carriers/vendors and distribute the text message to the appropriate Public Safety Answering Point (PSAP) in the format required by that PSAP (web browser, TTY, Direct IP interface).

Respondents proposed solution(s) shall minimize interconnection points between Respondents proposed solution and the PSAP by providing a single content distribution node from the aggregator solution to the PSAP interface.

Such an interface node shall be compatible with all NENA i3 CPE, TTY, and Web-based text displays.

Respondents proposed solution(s) shall only require that a person requiring emergency assistance enter the short code '9 1 1' in their wireless device in order to have an emergency text message sent to the PSAP.

The use of any other short code to send emergency text messages is not required nor shall there be any need for a public person to register their device in order to text 9-1-1 within the defined jurisdiction.

Respondents proposed solution(s), through a distribution method, shall allow messages to be transferred between PSAPs (primary and secondary) that use a web-based browser or NENA i3 CPE interfaces.

Respondents proposed solution(s) shall provide through the distribution method the ability to provide TTY transfer of SMS texts between TTY PSAPs on the same selective router.

Respondents proposed solution(s) should provide an Aggregator function that:

- Will aggregate text-to-9-1-1 messages from multiple TCCs into a single message stream for distribution to the PSAPs
- Supports any ATIS compliant text-enabled CPE interface
- Supports transfer of text sessions between different interfaces

Respondents proposed solution(s) should provide a Distributor function that:

- Receives text-to-9-1-1 messages from the Aggregator and uses the ESRP/ECRF to route the message to the destination PSAP for the PSAPs served by the Distribution server.

- The Distributor includes:
  - TTY Interface – to handle conversion of a text message to a TTY stream for interfacing to a selective router through an Emergency Services Gateway (ESGW)
  - Web Portal – contains a portal for the web-based Respondents solution for use by the call taker
  - SIP/MSRP Interface – interface between the Aggregator and the NENA i3 ESInets or MSRP CPE at the PSAP.

Comply.

Solacom has associated with INdigital, a third party contractor, for TCC services. The TCC provider can support TTY (not recommended), web portal, or SIP MSRP. INdigital will act as a service aggregator for Solacom providing redundant resilient connections to the carriers text providers.

INdigital text to 911 services is nearly ready to transfer text sessions between answering positions. This feature is expected to be deployed early Q2 2016 into production. Lab demonstrations can be provided.

The solution is compliant with the ATIS J110 standard.

3.3.1 DATA COLLECTION AND REPORTING

The proposed solution shall supply call detail record (CDR) or an equivalent for all text messages. The solution shall provide QoS information, per NENA i3 standards, for each text 'call' to ensure that SLAs are being met.

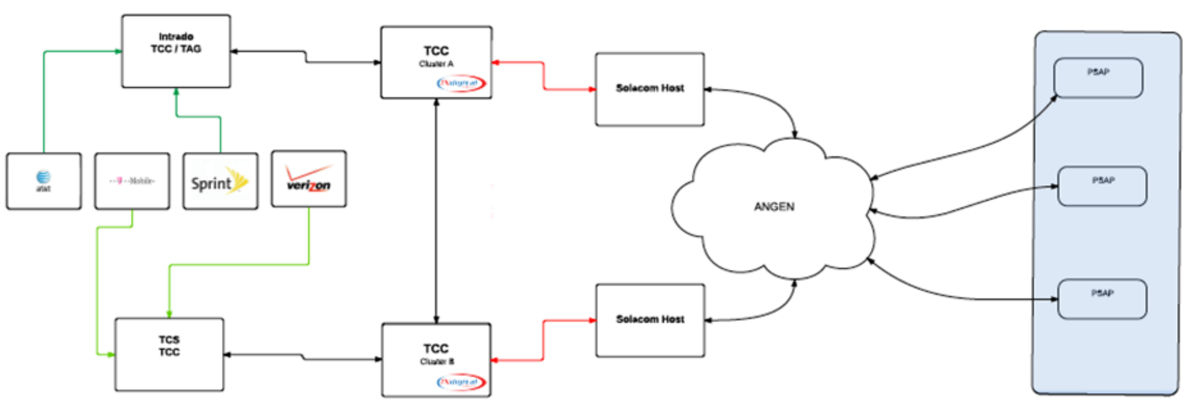
Quality of service information should be accessible through Respondents' maintenance function.

Respondents shall provide diagrams for their proposed solution showing:

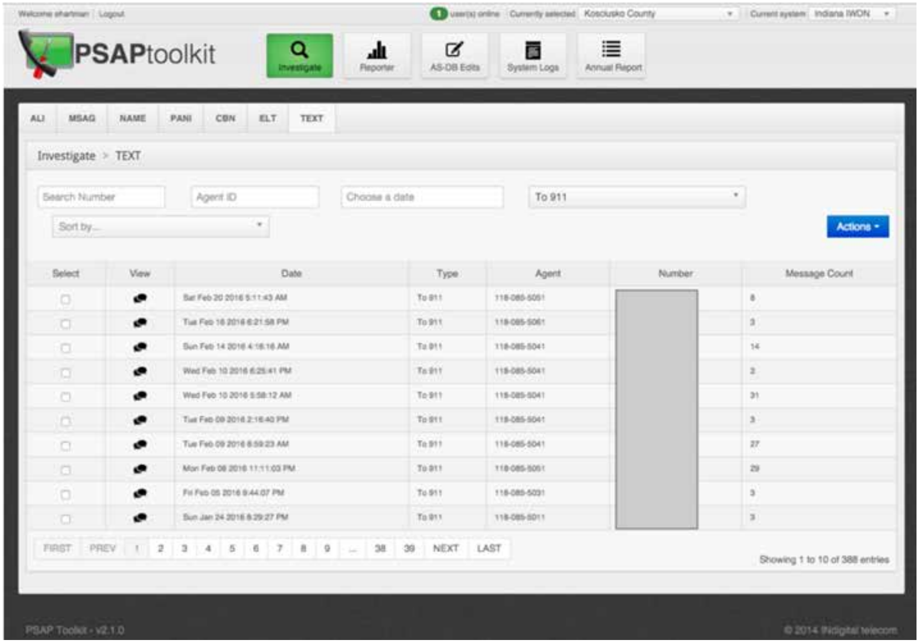
- System connectivity
- System NG9-1-1 functionality including connectivity to network
- Intelligent workstation equipment

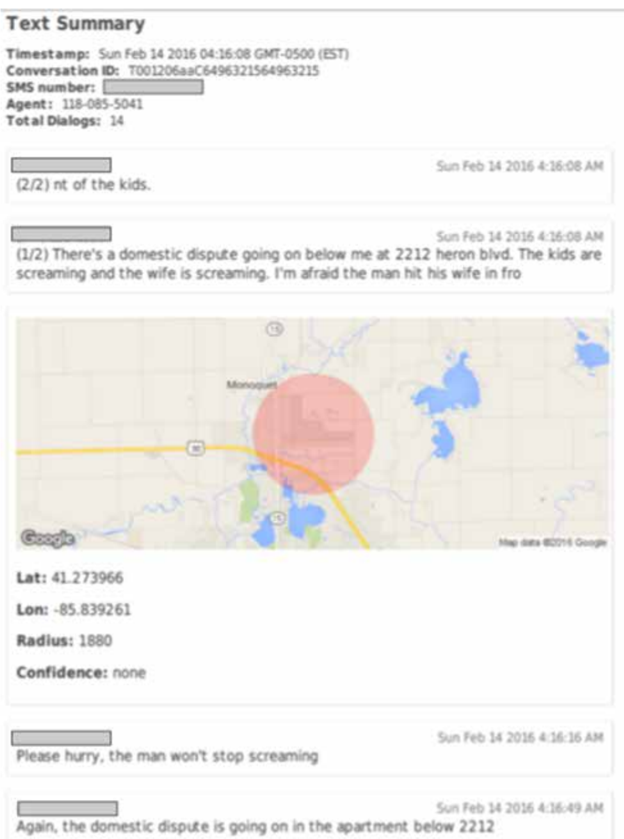
Comply.

System connectivity will be established in a redundant configuration to the INdigital TCCs. It is recommend to use dedicated circuits as the primary delivery from the TCC to the host sites. In addition VPN connectivity from the Host to the TCC as secondary delivery method should be established.



Solacom will also utilize the INdigital text to 911 MIS package. This system provides complete history of text to 911 messages and location data.





3.3.2 PSAP GRAPHICAL USER INTERFACE AND TEXT STATUS WINDOWS (BROWSER METHOD)

Respondents shall include a user interface provided for a web browser that allows a supervisor the ability to modify the system sounds and button icons.

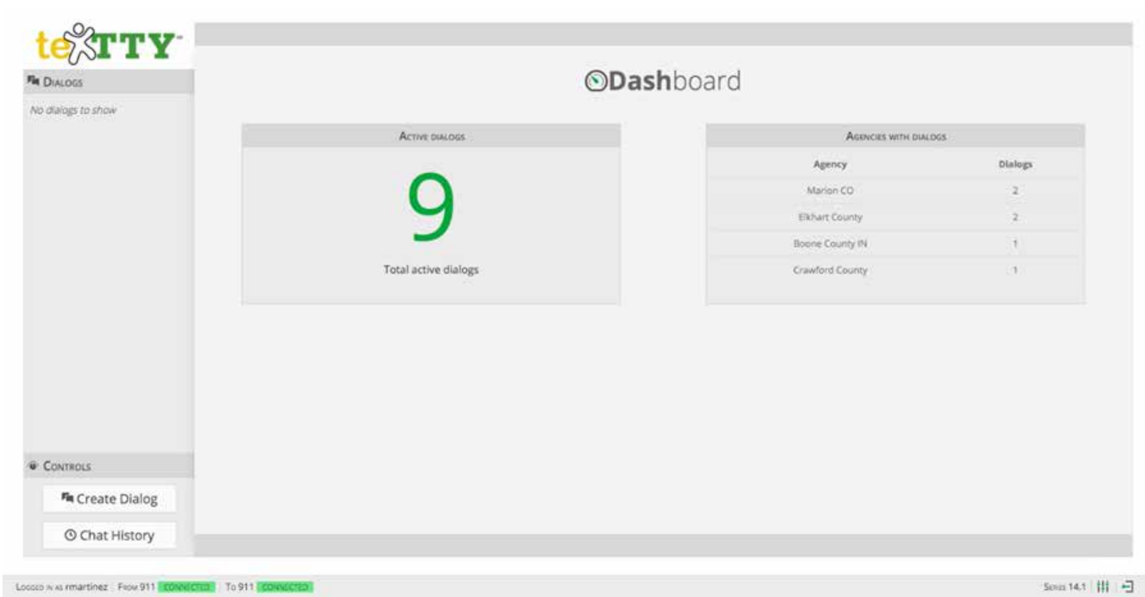
The User interface proposed by Respondents solution must utilize Windows Graphical User Interface (GUI) interfaces using drop-down boxes, check boxes, text boxes, radio buttons. Etc. to facilitate user friendly data entry and editing.

The Intelligent Workstation shall present the text-call-taker, at a minimum, with the status of the following categories:

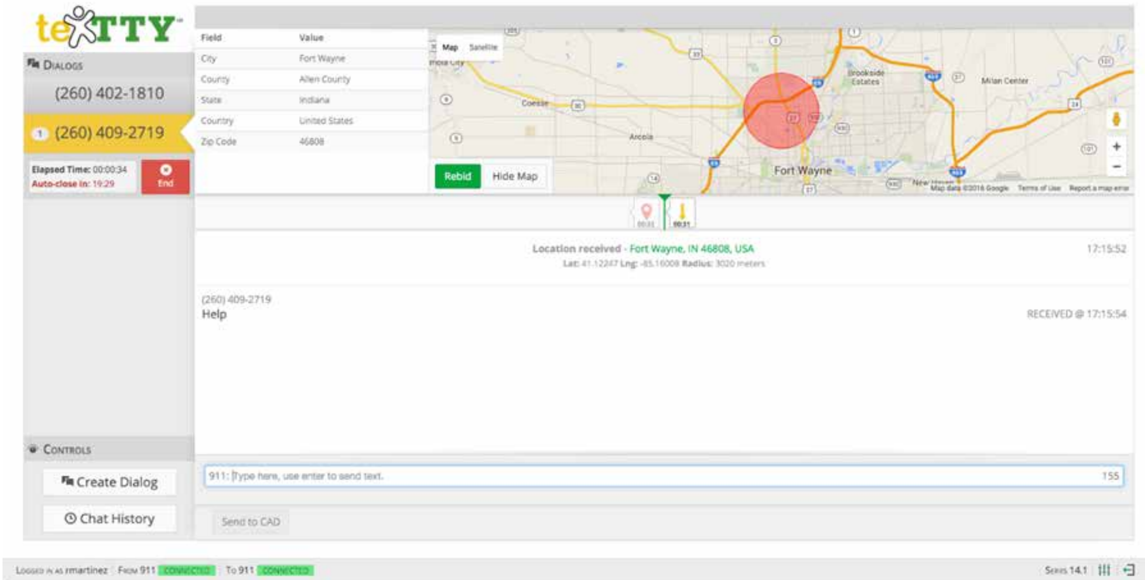
- Number of Active Text-to-9-1-1 Calls
- Number of Text-to-9-1-1 Calls on Hold
- Number of Text-to-9-1-1 Calls 'Ringing'
- Number of Active Text-to-9-1-1 Call takers.

Comply.

The following is a dashboard view of the number of Active Text to 911 Call Takers and Active Calls.



The following figure is an example of active text sessions with one session on hold.



AL-NG9-1-1-RFP-16-001 ATTACHMENT D- Technical Specifications

SECTION 4 ANGEN i3/NG CORE SERVICES REQUIREMENTS

4.1 NENA I3 NG CORE FUNCTIONAL REQUIREMENTS

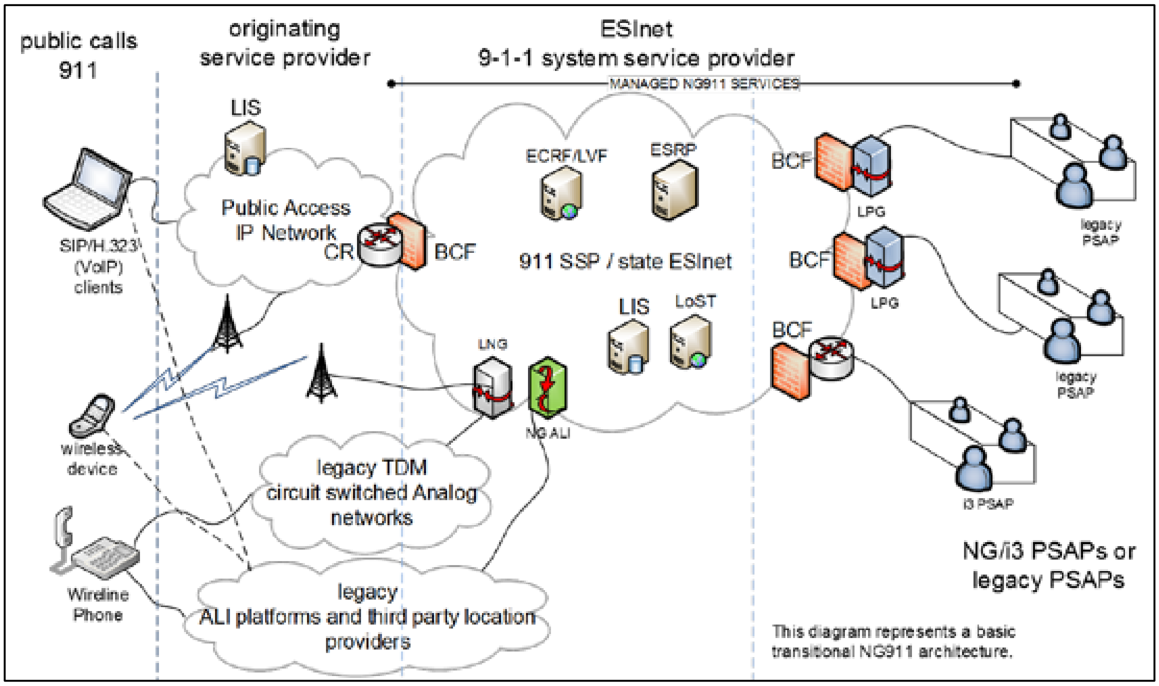


Figure 8 - ANGEN Conceptual Design Diagram

The proposed system shall be designed to meet and expand the current capabilities of the ANGEN system and be scalable and adaptable to accept new payloads (such as Text, Pictures and Video) that may be directed by the Board for deployment during the term of the contract.

ANGEN is currently configured as a wireless carrier aggregation point, which is interconnected to every S/R in Alabama, which then serve and deliver wireless 9-1-1 calls to the PSAPs in AL.

The proposed system is required to provide or accommodate NG9-1-1 core functional elements as well as legacy transitional elements for the continued and future operation of ANGEN.

Those NG9-1-1 core functional and legacy transitional elements include:

- Border control function (BCF)
- Emergency call routing function (ECRF)
- Emergency services routing proxy (ESRP)
- Legacy network gateway (LNG)
- Legacy PSAP gateway (LPG)
- Legacy Selective Router Gateway (LSRG)
- Location Validation Function (LVF)
- Policy routing function (PRF)

Respondents shall explain where these functional components are physically located in their proposed solution and describe how they will operate.

It is recognized that all of the functions may not be required at this time and that some may only be added after transition or at some future point as technologies or standards evolve.

Suggested components that are not used or are not needed in the Respondents proposed solution must be clearly noted as an exception; and an explanation must be given for eliminating the particular component to perform the ANGEN capability.

Comply.

To meet ANGEN's short and long term migration strategies, it is anticipated that only a few NG911 elements would be required to be deployed at the onset of the project to accommodate the re-use of much of the infrastructure that is in place today.

At project inception, the 2 functional elements necessary to begin the transition to next generation network routing will be:

1) Combined Legacy Network Gateway (LNG)/ Legacy Selective Router Gateways (LSRG)

2) Emergency Services Routing Proxy (ESRP)

Legacy Network Gateway (LNG)/ Legacy Selective Router Gateway (LSRG)

The proposed solution is architected with 2 LNG/LSRGs. The 2 LNG/LSRGs are signaling and media interconnection points between legacy telecommunication networks (wireless carriers) and the i3 architecture of the Solacom solution. They provide T1 interfaces to legacy telecommunications networks as identified in the RFP and corresponding IP interfaces to the ESInet with SIP signaling to the ESRPs.

The 2 LNG/LSRGs deliver calls to the ESRPs portion of the unit after querying the legacy routing database. Mirroring telecommunication circuits across the 2 LNG/LSRGs is the optimal strategy for ensuring that there is not a single point of failure that could lead to a complete outage of the call delivery network. Each telecommunication circuit is dual homed to 2 LNG/LSRGs. In the unlikely event of the failure of an LNG/LSRG, calls will be redirected away from the failed LNG/LSRG to a healthy LNG/LSRG by the carriers using the dual homed configuration.

Emergency Services Routing Proxy (ESRP)

The proposed solution has a pair of Geo-Diverse ESRPs.

For wireless calls, the ESRP functionality takes the call from the LNG/LSRG and routes the call based on PANI/ESN routing within the selective routing database. The ESRP uses the response and internal routing tables to send a SIP call with caller location or by reference, to a legacy PSAP gateway.

For wireline calls, the LNG/LSRG converts the call signaling to SIP/RTP and determines the location of the caller using the ANI to query the LIS and the resulting location is used to route the call to the ESRP. The ESRP uses the location again to route the call to the appropriate PSAP.

All LSRGs have connectivity to all Selective Routers so that the failure of any one LSRG will maintain full call handling capacity on the remaining LSRG.

The LNG/LSRGs and ESRPs will be located at data centers in ASA Huntsville and ASA Montgomery as requested.

4.2 BORDER CONTROL FUNCTION (BCF)

Per the NENA i3 NG9-1-1 specification, the network must be configured with a Border Control Function (BCF) at all ingress and egress points.

The BCF shall support a variety of direct IP interconnection arrangements between the ESInet and external IP networks depending on the level of mutual trust that exists between the respective networks.

It is strongly recommended that BCF's are located at a minimum of two geographically diverse points of interconnection (POI), and support 99.999% availability interconnections to external networks.

Respondents shall explain the features and capabilities of their proposed BCF, along with a brief explanation of how high availability will be achieved.

Comply.

As per NENA 08-003, the BCF is an SBC plus a firewall.

Oracle acquired Acme Packet, the inventor of the SBC and global leader. The SBC components of BCF inspect, modify and control SIP signaling and associated media where Emergency Services IP Networks (ESInet) and agency networks interconnect and where ESInet connects with service provider networks.

The proposal includes a BCF that is based on the DoD JITC certified Acme Packet 4600, the industry's leading SBC product family, which has been deployed globally for 14 years in mission critical networks. The Oracle SBC mitigates security threats, resolves interoperability problems and provides reliable SIP-based communications. The border controller protects and controls real-time voice, data/text and video NG 9-1-1 sessions as they traverse IP networks between callers and PSAPs.

Deployed and configured as high available pairs, the Oracle SBC supports 99.999% availability.

Planned maintenance or upgrades do not require down time, as one controller in the pair shall be active during such maintenance activity. The Oracle SBC supports active/standby controllers (1:1 redundancy) with check-pointing of signaling, media, tunnel and configuration state for no loss of service.

The standby controller is the backup system, fully synchronized with active SBCs' session status. The standby controller monitors the status of the active system so that, if needed, it can assume the active role without the active system having to instruct it to do so.

Software upgrades are applied to the standby controller, the user forces the standby controller to become the active (now running the new image), and then the other controller is upgraded.

If a major component fails, the controller detects the error and switches over to the standby controller. Calls/sessions in progress do not drop. This switchover happens in less than 100ms. The proposal includes SBCs at each data center.

4.3 EMERGENCY CALL ROUTING FUNCTION (ECRF)

Respondents shall include an emergency call routing function (ECRF) in their proposed solution that utilizes geographic location information to route emergency calls to the appropriate PSAP.

The ECRF shall be designed according to NENA08-003 standards and be implemented using diverse, reliable and secure IP connections.

Respondents shall supply an ECRF function that meets a minimum of 99.999% availability

Respondents providing an ECRF must ensure that it is accessible from outside the ESInet and that the ECRF permits querying by an IP client/endpoint, a Legacy Network Gateway (LNG), an Emergency Services Routing Proxy (ESRP) in a next generation Emergency Services network, or by some combination of these functions.

An ECRF accessible inside an ESInet must permit querying from any entity inside the ESInet. ECRFs provided by other entities may have their own policies on who may query them.

An origination network may use an ECRF, or a similar function within its own network, to determine an appropriate route, equivalent to what would be determined by the authoritative ECRF, to the correct ESInet for the emergency call. Respondents shall describe the functionality of such an ECRF equivalent and document where this functional element resides within their proposed solution.

The ECRF shall support a routing query interface that can be used by an endpoint, ESRP, or PSAP to request location-based routing information from the ECRF. Additionally, it must support both iterative and recursive queries to external ECRF sources.

The ECRF must interface with the Location to Service Translation (LoST) protocol (RFC5222) and support LoST queries via the ESRP, PSAP customer premise equipment (CPE), or any other permitted IP host.

The proposed ECRF must allow for rate limiting queries from sources other than the proposed ESRP(s), and provide logging of all connections, connection attempts, and LoST transactions.

The ECRF must be designed and implemented to support the ability for GIS data management functions to ensure accurate location data is maintained.

The ECRF must support:

- Location error correction.
- Routing of calls based on geographical coordinates and civic addresses.
- Utilize common GIS boundaries (to include but not limited to Municipal, Police, Fire, EMS).

· Permit LoST association with each layer.
· Comply with NENA 02-010 and NENA 02-014.
· Must support dynamic updates to GIS without disruption of the ECRF.
· Validation of GIS updates before they are applied.

GIS is handled locally throughout the State of Alabama. Respondents shall define their method for collecting local PSAP related GIS information and establishing the ECRF.

Respondents shall explain where the ECRF will be located and how it will operate within their proposed solution.

Respondents shall describe how the proposed ECRF and its capabilities, features, functions and protocols provides high reliability routing for all 9-1-1 call types.

Respondents shall describe the interface to the system that provides the ability to upload location information once the Extensible Markup Language (XML) is published and approved for general use, as determined by the Board.

Comply. FairPoint Communications proposes GeoComm GeoLynx Spatial Router NG9-1-1 ECRF system to meet this requirement. GeoLynx Spatial Router ECRF is an IETF 5222 compliant LoST Server that provides the NENA i3 functional elements of ECRF specified in NENA TSD 08-003. There are many related RFCs that define how GeoLynx Spatial Router operates, including PIDF-LO, RFC 4119 and its revision RFC 5139. GeoComm's ECRF system design supports 99.999% up time in the FairPoint provided and monitored ESInet.

General features of the GeoLynx Spatial Router ECRF include:

- IETF RFC 5222 Compliant LoST Server
- Routes an emergency call for service based in GIS and provides that information to the ESRP
- Calculates service URI for 9-1-1 call routing based on a call's location
- Unlimited URN's can be implemented based on layers provided
- Administrative dashboard for monitoring real-time statistics, load, query response behavior, and individual query contents, system-wide and per server
- Includes an interface allowing endpoints, ESRP's, and PSAP's to request location-based routing information
- Supports NENA i3 logging mechanisms, and includes internal logging, and provides and network monitoring system interfaces
- Using Esri technologies' robust RDBMS systems, in a fully redundant, secure, multi-tier load balanced server architecture
- Optimized for speed with dynamic cache architecture to reduce call setup time
- Secure web-based administration, including on-the-fly ad-hoc routing boundary changes useful during wide scale disasters and emergency events when call routing needs to be changed quickly
- Supports PIDF-LO geodetic location types of point, polygon, circle, ellipse, and arc-band
- Supports PIDF-LO civic location types, including fine grained components handling building, floor, suite, room, and seat

- Supports recursive requests, presuming the availability and accessibility of external ECRF's
- Supports LoST queries from CPE's that are configured to interface with the GeoLynx Spatial Router ECRF.
- Capable of operating in an origination network, assuming the origination network services provider has also purchased licenses of GeoLynx Spatial Router ECRF
- Supports Custom Extract Transform Load (ETL): suitable for interoperating with other proprietary GIS enterprises

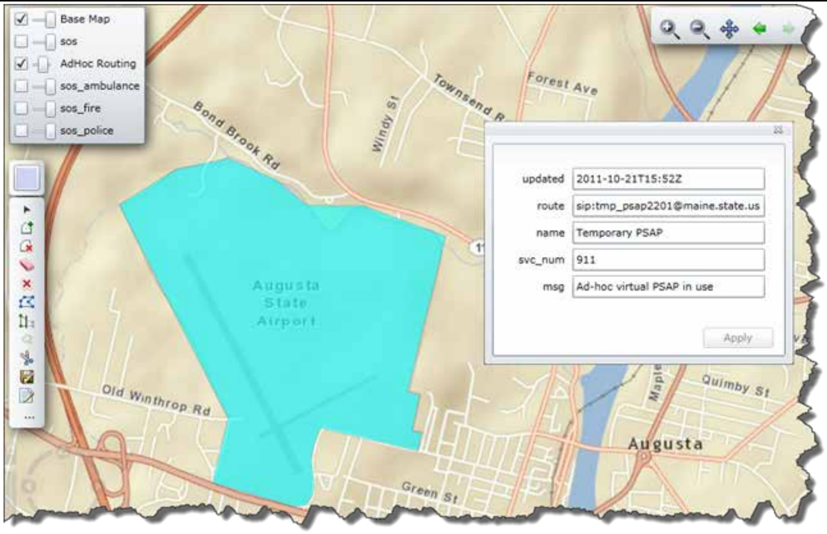
GeoLynx Spatial Router ECRF complies with industry GIS standards, including NENA 02-010V9 and NENA 02-014v1. GeoComm's ECRF is aligned with the draft NENA Standard for NG9-1-1 GIS Data Model.

GeoLynx Spatial Router ECRF Advanced Features

GeoLynx Spatial Router ECRF also includes many advanced features not commonly available in other vendor ECRF implementations. GeoLynx Spatial Router provides secure web-based administration, including on-the-fly, ad-hoc routing boundary changes. Ad-hoc routing boundaries are useful to implement geographic-based routing changes during wide-scale emergency events when call routing needs to be changed quickly. During such events, it may not be practical to request a service boundary change to be implemented by the GIS data management staff and propagated to ECRFs via the agreed upon ECRF GIS data provisioning mechanism.

The GeoLynx Spatial Router ECRF ad-hoc routing boundary feature makes it possible to draw a new temporary routing boundary around an area and designate a PSAP service URI for the temporary polygon. From that point forward, instantly, all 9-1-1 calls originating within that area will route based on the new temporary service URI, which could point to a different PSAP, or a virtual PSAP deployed in the field. As a policy decision, the state may decide to allow or disallow the use of ad-hoc routing boundaries in ECRF.

GeoLynx Spatial Router ECRF also features the ability to discover additional data associated with a location. NENA 71-001 NG9-1-1 Additional Data describes several additional data information data structures, such as additional data associated with a call, associated with a caller, and associated with a location. The additional location information data structure is discovered by querying an ECRF additional location data service. The GeoComm ECRF is unique in that it can discover additional location data for both civic locations, and geodetic locations, using a configurable proximity matching algorithm.



This enables <findServices> requests to the additionalData service. When configured in this manner, the GeoLynx Spatial Router ECRF will perform a proximity search around the requested location extending to the maximum search radius looking for features that have a URI to an additional data associated with a location document which can describe a myriad of information (see NENA 71-001 – NENA Standard for NG9-1-1 Additional Data). For example, when a commercial property, such as an office building, within the search radius which has additional data about a location details specified, it will return a URL within the <findServiceResponse> message to the location.

GeoLynx Spatial Router ECRF may be configured in such a way to rate-limit queries. ECRF queries are sent to a URL with high priority. All other queries (with a source other than the ESRP) are sent to a lower URL with a lower priority. However, based on the state of Alabama's needs and the designed system, it is unlikely the State would have the need to rate-limit queries.

GeoLynx Spatial Router ECRF and Solacom Integration, Special Features

GeoComm has a unique and collaborative relationship with Solacom, with the ECRF servers hosted in a datacenter provided by FairPoint. Based on joint development between GeoComm and Solacom, the Solacom ESRP can receive enhanced information from a GeoLynx Spatial Router in order to spatially enable the Solacom ESRP's Policy Routing Function (PRF). When queried by a Solacom ESRP, the GeoLynx Spatial Router will include spatial call cluster metrics in a well formatted proprietary LoST Extension included in the LoST <findServiceResponse>. If GeoLynx Spatial Router encounters many <findService> requests at or near the same location, it can be useful for the ESRP to understand a trend and to offer PRF capabilities to enhance call flow efficiencies during such scenarios.

For example, a stalled motorist on the freeway may generate a spike in 9-1-1 calls at or near the same location, as passing drivers call 9-1-1 on their cell phones to report the stalled vehicle. At about the same time, a new 9-1-1 call from a different location may enter the system, but not be chronologically next in order to answer. In this case, GeoLynx Spatial Router identifies a cluster and an outlier and provides this information to the Solacom ESRP in a <findServiceResponse> LoST extension.

The Solacom ESRP's PRF can utilize this enhanced information, based on configured policy, to route the clustered calls differently, such as to an IVR or dedicated group of call takers who are working the incident, and more quickly dispatch the outlier.

GeoLynx Spatial Router ECRF Error Handling

GeoLynx Spatial Router is able to capture unhandled exceptions and still return a response to the requestor indicating an internal error occurred. In addition, several other potential error conditions are checked for and reported back to the requestor including:

- Malformed XML or LoST syntax (bad request errors)
- Requested service URN is not supported (service not implemented errors)
- Invalid GML or coordinate values (location invalid errors)
- Unknown location profiles (location profile unrecognized errors)
- Spatial reference problems (SRS invalid errors)
- Revisiting an already queried server (loop errors)
- Recursive time out conditions (server timeout errors)
- Bad response from a recursively queried server (server errors)
- Access denied to recursively queried server (forbidden errors)

GeoLynx Spatial Router High Availability Deployment Architecture

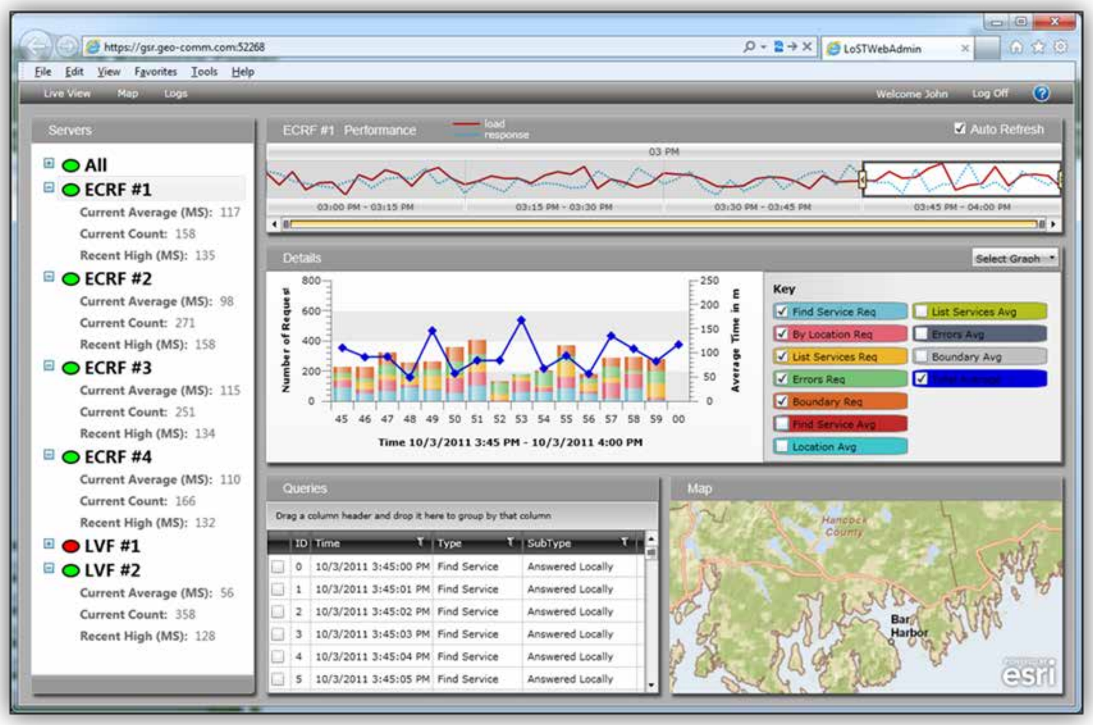
GeoLynx Spatial Router physical architecture is a load balanced, fault tolerant, system of GIS servers, database servers, and web servers. GeoLynx Spatial Router ECRF has no single point of failure, is capable of 99.999% uptime, and supports geographic redundancy.

GeoLynx Spatial Router ECRF Intelligent Default Mechanisms

GeoLynx Spatial Router ECRF is capable of returning a default route URI for requests containing locations that did not resolve properly within the loaded GIS coverage area. This can happen when a location is slightly incorrect, such as an invalid house number. It can also occur when new addresses have not yet been loaded into the GeoLynx Spatial Router's GIS. GeoLynx Spatial Router also implements a "best efforts" scheme in the event a civic location provided in a LoST <findService> request does not completely match GIS data that has been provisioned to the ECRF. In the example provided in the requirement of a civic location containing an unrecognized street name, but valid city and state, GeoLynx Spatial Router can return a service URI based on a PSAP service area boundary polygon wholly containing the civic location's city. In this case, the <findServiceResponse> returned from GeoLynx Spatial Router will also contain a <defaultMappingReturned> warning, indicating to the querying function that a default mapping was then determining the route. This "best efforts" feature in GeoLynx Spatial Router is a configurable option that may be turned on or off as a matter of policy.

<u>GeoLynx Spatial Router Logging</u>

GeoLynx Spatial Router ECRF has several logging mechanisms to facilitate transaction auditing, debugging, and activity monitoring. Diagnostic logs exist for all servers in the system, tracking any internal server errors that occur, which can then be analyzed for configuration and server errors. All LoST transactions passing through GeoLynx Spatial Router Servers are also logged, for a complete archive of activity. In addition, GeoLynx Spatial Router logging mechanisms include i3 compliant log event reporting, meaning that within an ESInet, GeoLynx Spatial Router servers can send ECRF request/response logs to an i3 compliant logging service. Finally, GeoLynx Spatial Router includes a browser based dashboard that shows current activity and server status, generates transaction reports, and views the logs directly.



Connection and connection attempt logging may be enabled by a network technician for trouble shooting. Logging is disabled by default for connection and connection attempts.

Dynamic Updates

During the update process, each QPS is systematically taken offline one at a time in series to ensure no service disruption. The update process is managed by the provisioning server, the intermediary step before the GIS data going live. This ensures all systems are updated and update failures are rolled back into the ECRF. If there is an error in the update, the system will automatically roll the GIS update back for the system cluster. As such, the system is kept consistent with the GIS. The provisioning dashboard displays a message indicating the status of each server.

GIS Data Management

With our dedicated, experienced project team, GeoComm will provide the state of Alabama with an initial NG9-1-1 GIS dataset for routing calls, based on existing data available within the state and from individual ECD's. This will include mechanisms for continually updating the dataset to produce seamless, statewide coverage. GeoComm's solution is complete with a variety of core components for acquiring location GIS data updates, performing GIS data transformation and GIS data normalization, executing automated QA/QC checks, reporting discrepancies back to counties, and providing a seamless statewide GIS dataset.

At a high level, GeoComm's NG9-1-1 GIS managed services solution includes the following elements:

- Subscription-based access to GeoComm's enterprise GIS data management tools:
  - GeoLynx Server GIS Portal for easily transferring GIS data and viewing GIS update status
  - GeoLynx DMS Discrepancy Viewer to efficiently communicate GIS data errors to counties and regional authorities for resolution
- GIS implementation services to organize GIS data sources for the system, develop the quality control plan, and identify key roles in the NG9-1-1 GIS data workflow process
- NG9-1-1 GIS Managed Services providing on-going GIS data transformation, aggregation, QA/QC and reporting

Throughout this project, we will dedicate time to project management and ongoing communication. By joining our Team you will know the status of your project, that deliverables are being met, and have confidence your objectives are being carried through. GeoComm will provide regular status updates that will include:

- General progress updates
- Meetings held, planned, or needed
- Issues/problems encountered or anticipated
- Goals for the next reporting period
- Schedule review
- Customer responsibilities

The FairPoint Team will schedule an on-site project initiation meeting with key project stakeholders to present the project approach and the anticipated project schedule. The initiation meeting will be held onsite at a centrally located meeting space. The agenda will additionally include reviewing project objectives and goals, defining mutual expectations, and establishing communication processes.

Statewide GIS Data Aggregation

GeoComm will create an initial statewide GIS dataset for NG9-1-1 by combining GIS data layers from the state and local entities, including data all of ECD's that have 9-1-1 GIS data. GeoComm's method of local data submission from individual counties or regional authorities is through the GeoLynx Server GIS Portal or FTP. Each local entity must provide agency jurisdiction copies of their MSAG and ALI databases.

This initial GIS dataset will be statewide, in that it will incorporate existing data throughout the state. In order to route calls to the correct dispatch center using this GIS data in the proposed ECRF, and subsequently forward them to the appropriate responder, the following minimum GIS layers will be required throughout the state:

- Street/Road Centerline, with road ranges
- PSAP Boundary
- County Boundary
- Emergency Service Boundaries
- PSAP Routing Boundary

If not available from the state, individual counties, or regional authorities, GeoComm can populate the street/road centerline and county boundary layers based upon publically-available sources (such as U.S. Census Bureau's TIGER/Line shapefiles). If not available, GeoComm can develop PSAP and/or ESZ boundaries or synchronize the road centerline layer to the MSAG for individual counties at an additional cost and under a separate contract between the ECD and GeoComm.

Note: While GeoComm will provide ongoing QA/QC audits and the ECRF will not accept data updates that fail quality control checks, the quality of the data included in the statewide dataset is ultimately the responsibility of individual ECD's.

Additional GIS layers, such as site/structure address points, can be added as they are available from ECD's

To facilitate the creation of a uniform statewide GIS base map, automated schema and geodetic transformation procedures will be executed to assimilate the source GIS data layers into the authoritative GIS data model. As available, the individual GIS data layers will then be merged into a statewide dataset. In order to create topological accuracy across county boundaries, GeoComm will also create reference layers along ECD boundaries to which local authorities can match roads and allow for vehicle routing across ECD lines. A seamless polygon layer representing all ECD's in the state will need to be provided by the state of Alabama in order for this additional reference layer to be created.

After layers are aggregated together, the GIS dataset will be loaded into the GeoLynx Server GIS Portal. As part of this process, GeoComm will:

- Create, configure, and load Esri address locators for simple address lookups
- Design Esri ArcGIS map documents (.mxd) for GeoLynx Server (layers, layer order, layer visibility, scale dependent display, symbology, labeling, etc.) based on project stakeholders' preferences
- Develop, configure, test, and publish ArcGIS Server map services

This will result in a stand-alone GIS function that can provision to the ECRF and LVF to allow it to route incoming calls to the correct PSAP, as well as provide the framework for developing a single, seamless statewide GIS dataset.

After the ECRF has been implemented, GeoComm will update the statewide GIS dataset based on updates sent by ECD's up to twice monthly prior to the acceptance of the ESInet. After the state has accepted the ESInet and the NG9-1-1 system has been implemented, GeoComm will provision GIS updates to the ECRF on an up-to-daily basis, as described in section 6.8.

The statewide GIS dataset and GeoLynx Server GIS Portal will be hosted in a secure data center, described in more detail in section 4.10:

GIS NG9-1-1 Data Model Development

GeoComm will work with the state to develop a GIS data model which will be used as a guide in the development and enhancement of key GIS layers for Alabama's NG9-1-1 system. GeoComm will work with the state to review resources which will influence the final design of the data model. Resources and workflows to consider include:

- General progress updates
- Dispatch mapping system requirements
- NENA standards
- ECD resources that contribute to the address information
- ECD public safety maintenance procedures:
  - ALI management
  - MSAG maintenance
- ECD GIS workflows
- Maintenance software data requirements
- Workflows defined by the maintenance software

The GIS data model will be used for the aggregation of an initial statewide GIS dataset as well as for the ongoing maintenance and further enhancement of GIS data, as described in section 6.8. The data model will clearly outline the feature data sets, feature classes, and domains specific to Alabama's NG9-1-1 needs.

GeoComm understands the data model must fit the needs of the dispatch mapping system standards, NENA standards, and allow for future development of attributes. GeoComm has across-the-board knowledge of data models, addressing, MSAG and ALI database development, GPS data collection, and digital base map development. Our experience will enable the creation of a solid data model for the state of Alabama.

Note: The proposed system accommodates differing data models and geodetic systems from disparate 9-1-1 GIS data sources. Counties will be able to continue working with their existing data structure, if needed, and still have updates incorporated into the statewide dataset.

Ongoing GIS Data Maintenance

GeoComm will work with the State to establish a mutually-agreeable schedule for GIS data maintenance updates and provisioning, including a deadline for local authorities to submit GIS changes for processing. Once the state's NG9-1-1 system has been implemented, data submitted before a daily deadline will undergo quality control validation checks and be processed by the following day's deadline for provisioning to the ECRF, excluding holidays and weekends; datasets that pass validation checks will be provisioned into the ECRF, and datasets that do not pass validation checks will be returned to the local authority for resolution. Data submitted after the daily deadline will be processed after the following day's deadline.

To establish this process, GeoComm will work with the state and local stakeholders to establish a maintenance workflow. Once the initial statewide database has been created, GeoComm will provide GIS managed services to ensure the statewide database is continually updated with improved data submitted by local authorities. GeoComm will additionally work with the state to establish a process for time-critical or time-sensitive updates that are needed during weekends or holidays, such as jurisdictional boundary changes that go into effect on a weekend or holiday.

Note: If incoming GIS data is submitted using a field structure different from what was previously submitted and accepted, it cannot be processed without revising the extract-transform-load (ETL) process. A GeoComm specialist will work with the submitting ECD on the next business day to edit the ETL process so that the new field structure can be incorporated into the system.

<u>Maintenance Workflow Development</u>

During the same trip as the project initiation meeting, GeoComm will host an on-site extract/transform/load (ETL) and GIS data management collaboration meeting, to be held at the same site as the initiation meeting.

GeoComm's Project Manager will work with project stakeholders to identify GIS data sources for the system as well as key roles in the GIS data workflow process. In addition, the following will be discussed:

- Existing GIS workflows within the state of Alabama
- GIS data quality expectations and data remediation requirements
- Local data source field mapping to statewide accepted data schema
- Developing mechanisms to work toward a true seamless, gapless statewide dataset through guidelines and standard operating procedures for local jurisdictions maintaining the source GIS data
- Workflows that will allow for changes to be consistently processed according to a mutually-agreeable daily submission and provisioning deadline, excluding holidays and weekends.

GeoComm will conduct an initial GIS workflow analysis. Local GIS data sources as well as specific roles and responsibilities in the GIS data exchange process will be documented. Existing workflows will be reviewed and modifications will be identified to incorporate the software and services included with the solution.

After the review, GeoComm will develop and provide a preliminary copy of the enhanced and new maintenance workflow diagrams. The recommended NG9-1-1 GIS workflows will cover roles, responsibilities, and activities including:

- Local authoritative GIS data update incorporation, including reviewing, tracking, and management by source 9-1-1 entities
- Review, editing, and management of addressing information from other authoritative sources by source 9-1-1 entities
- Provisioning GIS updates into the regional or statewide GIS dataset
- Workflow for handling QA/QC error reports and subsequent re-provisioning
- Identifying mechanisms for propagating GIS changes to the Emergency Call Routing Function/Location Validation Function (ECRF/LVF) servers

Maintenance Workflow Presentation

After project stakeholders have had time to review the preliminary documentation, the GIS Project Manager will travel on-site for a one-day working session (extendable to two days if two locations in the state are needed). It will be followed by up to two additional conference calls and/or working web sessions to discuss and adjust the preliminary maintenance workflow diagrams. The final maintenance workflows will be distributed and discussed during an on-site meeting with stakeholders involved in GIS data editing, data management, and submission.

During this same on-site meeting, the GIS Project Manager will also provide a train-the-trainer training session focusing on how to incorporate GeoComm's GIS Data Management tools into the new maintenance workflows. Training curriculum includes:

- Core GeoLynx Server tool functionality
- GIS data request management
- Downloading GIS data from the GIS Portal
- GeoLynx DMS Discrepancy Viewer functionality
- Accessing QA/QC reports via GIS Portal or GeoLynx DMS Discrepancy Viewer
- Managing QA/QC exceptions

Training content and materials will be provided to assist participants to train other system users. Support materials including agendas, training formats, and scheduling will be reviewed. Training will occur in conjunction with the workflow presentation.

Ongoing Quality Control/Quality Assurance

Before GIS data can be used for routing 9-1-1 calls and validating civic locations in an NG9-1-1 system, the data's accuracy and integrity must be validated through a series of data-specific, thorough QA/QC procedures. Without proper QA/QC, GIS data issues could interfere with NG9-1-1 emergency response operations.

GeoComm will implement a QA/QC process to ensure data meets the state of Alabama's NG9-1-1 criteria; this process will automatically report GIS errors to the authoritative 9-1-1 source for correction. As counties, regional authorities, and/or the state improve their data based on these error reports and reference layers, the GIS dataset will become increasingly more complete and seamless.

The QA/QC plan will be discussed during the project initiation and GIS data management collaboration meetings. A GeoComm GIS Project Manager will collaborate with project stakeholders to develop a formal QA/QC plan. The quality control approach, including regular communication of QA/QC results to local GIS entities, will be documented. The plan will also detail initial on-going quality control processes to be performed on local GIS data submitted to GeoComm for provisioning into the ECRF. The final QA/QC Plan will be submitted to project stakeholders for review and approval prior to initiating any managed GIS services.

When updates are submitted by individual counties, multiple automated and manual quality control processes are performed prior to coalescing the updates into the statewide GIS dataset to ensure proper topology and data integrity. These processes may include:

Road Centerlines	• Address Range Audit - to identify overlapping address ranges that could cause addresses to geocode in the wrong location • Topology Audit - to locate unbroken/unsnapped intersections that could cause routing issues • Missing Attribute Audit - to identify missing or invalid values in pertinent attribute fields • Road Name Audit – to ensure proper road name standardization • Length Audit – to identify road segments which could cause addresses to geocode in the wrong location
Address Points	• Address Spacing Audit - to identify duplicate addresses • Address Missing Attribute Audit - to identify missing or invalid values in pertinent attribute fields • Address Sanity Audit - to ensure logical assignment of house numbers with respect to centerline
Boundary Layers	• Topology Audit – to locate gaps and overlaps in polygon coverage • Missing Attribute Audit - to identify missing or invalid values in pertinent attribute fields • Duplicate Audit – to check for duplicate attributes that could interfere with address location
Multi-layer Topology	• Verifies road centerline segments are broken where they cross any ESN, community, or PSAP boundaries, ensuring that addresses (based on address ranges) are properly located within the correct community and ESN on the map. Boundaries that run parallel to road segments should be snapped to those road segments at each vertex.

GIS error reports will be generated for updates that do not pass quality control. These reports will be transmitted to the sending agency and, optionally, to stakeholders at the state level for performance monitoring.

MSAG/ALI Synchronization

As the state transitions to the full implementation an NG9-1-1 system that uses GIS data to route incoming calls, it is important that the GIS data contain the information located within each ECD's MSAG and ALI database. GeoComm will produce annual audits of each ECD's GIS data in comparison to its MSAG and ALI database.

First, GeoComm will compare the MSAG and the street centerline layer. These procedures will verify that street names are spelled consistently and ESN and community attributes are synchronized. Second, GeoComm will compare house number and street name values in the ALI database against the address point and street centerline layers. Road name inconsistencies, incorrect address ranges, and missing address points or road segments will be identified. This process will also compare ESN and community information to confirm whether ALI database addresses locate within the appropriate boundaries in the GIS map data.

These audits will provide ECD's with the knowledge needed to synchronize their GIS data to the MSAG and ALI database, as well as a metric for measuring progress toward the needed synchronization level. The quality of the data included in the statewide dataset is ultimately the responsibility of individual counties.

Ongoing NG9-1-1 Managed Services

After the finalization of a GIS maintenance workflow and the aggregation of local data into an initial statewide GIS dataset, GeoComm will provide ongoing NG9-1-1 Managed Services to acquire local GIS data updates, perform GIS data transformation and normalization, execute automated QA/QC, and report GIS discrepancies back to authoritative 9-1-1 agencies for resolution. The most current data will be provisioned into the ECRF. This solution includes:

- Access to GeoComm enterprise GIS data management tools:
  - GeoLynx Server GIS Portal for transferring GIS data, viewing GIS update status and downloading QA/QC results
  - GeoLynx DMS Discrepancy Viewer to communicate GIS data errors to source GIS agencies for resolution
- GIS data normalization, QA/QC, and error reporting according to a mutually-agreeable daily schedule, excluding holidays and weekends.

Notes: The GeoLynx Server GIS Portal will be hosted in a secure datacenter, described more in section 4.10, and provided to project stakeholders as a service.

A GeoComm Project Manager will visit the state at a central location on an annual basis for a one-day meeting. The goal of this annual meeting will be to review progress made in the previous year and ensure the state's GIS data is meeting the state's maintenance goals.

4.4 EMERGENCY SERVICES ROUTING PROXY (ESRP)

The proposed solution must include an emergency service routing proxy for call delivery to the appropriate PSAP based upon location and routing rules.

Respondents shall explain where the ESRP will be located and how it will operate within their proposed solution.

This includes Carrier to ESRP, ESRP to ERSP and ESRP to call-taker routing.

Respondents shall configure the ESRP according to NENA 08-003 specifications and describe the ability of the ESRP to route SIP messages to a call taker.

Respondents shall explain how the ESRP interfaces to the ECRF and to the PRF to ensure that routing instructions, routing policies and possible event notifications that alter call routing scenarios are acknowledged.

Per NENA 08-003 for typical 9-1-1 calls received by an ESRP it;

1. Evaluates a policy “rule set” for the queue the call arrives on
2. Queries the location-based routing function (ECRF) with the location included with the call to determine the "normal" next hop (smaller political or network subdivision, PSAP or call taker group) URI.
3. Evaluate a policy rule set for that URI using other inputs available to it such as headers in the SIP message, time of day, PSAP state, etc.

The result of the policy rule evaluation is a Uniform Resource Identifier (URI). The ESRP forwards the call to the URI.

The ESRP shall support SIP SUBSCRIBE/NOTIFY in order to understand the status of both upstream and downstream elements.

Respondents shall describe their proposed ESRP solution.

Comply.

The ESRP functional elements will be deployed in a geo-diverse manner to maximize reliability. As the ESInet evolves and Next Generation database elements are added and turned, embedded NG features within the ESRP will be activated as described in the following paragraphs.

The ESRPs will be split equally between the ASA Hunstville and ASA Montgomery data center.

The proposed systems include embedded PRFs which also support routing of administrative calls. The systems also include conference bridges and can accommodate transfer requests from the PSAP in the form of SIP REFER methods as described in NENA 08-003 as embedded conference bridge transfer methodology, or in the form of * codes as per the functionality of an LPG.

The ESRP supports receiving caller location both by “value” in an incoming call SIP INVITE and by reference. When receiving a location by reference, the ESRP can de-reference the location using HELD. In both cases, based on instructions in the PRF, the ESRP can override this location by performing an HELD query to a predetermined NLIS.

Furthermore, the LNG subsystem does support performing HELD queries to an NLIS. In this case, the incoming call PRF specifies the HELD query destination. This allows support of HELD query “steering” in a similar way as “ALI steering” was supported.

Once having received a call and the associated location, the ESRP, as instructed by the PRF, will use the caller location to perform LoST routing query to the ECRF. The ECRF returns a URI identifying the Primary PSAP. The ESRP then use the URI and the PRF to send the call the proper Primary PSAP. The PRF is also use to identify alternate routes to the primary PSAP if need be.

ESRP supports both TCP and UDP for SIP. On ingress call, the selection is automatic based on the method selected by the sender to maximize interoperability. On egress, the selection is done in the PRF (outgoing call policies). When location (PIDF_LO) must be sent, TCP is automatically selected because of the packet size involved in sending PIDF_LO.

The flexibility in sending or not sending PIDF_LO is required when routing administrative calls or initiating transfers to non-i3 end points such as PBXs.

The proposed systems include PRF that are divided in two sections; incoming call policies and outgoing call policies. The incoming call policies can be triggered using:

- Incoming SIP: URI, origination IP address, SIP To field, Media type (Voice or MSRP)
- Incoming SS7, ISDN, FGD: ANI/PANI and DNIS
- Incoming CAMA: ANI/pANI

The ESRP supports receiving and routing inbound SIP INVITEs from the PSAPs and providing “administrative” call treatment to these calls.

911 Datamaster has successfully integrated with all major ESRP vendors both at NENA ICE events as well as in other large scale deployments.

4.4.1 POLICY ROUTING FUNCTION (PRF)

The Policy Routing Function (PRF) is the primary routing component of the ESRP. The ESRP uses defined routing policies within the ESInet and the NENA i3 network to deliver calls to the call-takers.

The PRF function requires the ability of the ESRP to assist in dynamically routing and re-routing calls based upon other rules beyond normal operation.

Respondents shall describe how they will operate the PRF functionality and explain how they will implement a proxy that is customizable based upon rules set by threshold or by manual intervention.

Additionally, Respondents shall describe what user interface will be used to modify policy rules and what i3 functions can affect policy changes for call routing.

Comply.

The PRF, or more precisely, the outgoing call policies, is able to specify multiple alternate routes for a given routing policy. There is actually no limit to the number of alternate routes that can be specified. For example, there are Solacom systems deployed in which more than 8 alternate routes have been defined for a given end-point. Some of these alternate routes include re-routing calls via the PSTN.

Also, for each incoming call policy, a specific default route can be specified in the form of a default ESN to be used. The ESNs further define an emergency service routing number (ESRN) and use the outgoing call policies to determine the final route.

There are two types of user interfaces available for modifying the PRF. One is via GUI application running on the administrative server and can be remotely accessed using RAdmin Viewer, which is a secure application used for remote monitoring of servers/PCs. The second is a Web application that is accessed using a standard Web Browser as specified by NENA 08-003.

Policy Routing Function (PRF) for flexibility

- Built-in as part of ESRP, LNG and LPG
- Web interface for editing
- Incoming call policies:
  - Identification of a rule (matching) based on:
    - Incoming SIP calls:
      - To field, (ANI/PANI)
      - From field (DNIS)
      - Source IP address
      - Media type (Voice or MSRP)
      - Asserted field (ESRN in I2 calls)
    - Incoming SS7, ISDN, FGD:
      - ANI/PANI
      - DNIS
    - Incoming CAMA:
      - ANI/PANI
- Automatically adapts to the sender and use TCP or UDP
- Initiate Recording (sending a SIP REC call to a SIP enabled recording device)
- Initiate LoST (ECRF) routing
- Initiate SRDB routing (legacy Selective Routing)
- Variables/parameters that can be specified by each incoming rule:
  - Location Query (HELD) destination (if no PIDF_LO is received)
  - Force location query (override any PIDF_LO received)
  - LoST routing Query destination
  - Enable SRBD look up (could be used as backup to ECRF routing)
  - Default ESN (in case no location or no ANI/PANI are received),
  - Force default routing (always used default ESN)
  - Specify if the far-end support disconnect supervision
  - Provide early off hook and local ringback
  - Hook Flash transparency (useful for LSRG only)
  - Transfer method (useful for LSRG only)
  - Enable SIP REC recording
  - SIP Rec destinations (primary, secondary)
  - Maximum simultaneous calls
- Outgoing call policies:
    - Identification of a rule (matching) based on:

- URI (returned from an ECRF)
- ESRN (from an ESN or received on I2 calls)
- DNIS (received on administrative calls)

- Alternate routing; rules can be cascaded and triggered based on:
  - A far-end which not reply to a SIP INVITE with a 100 Trying within 5 seconds,
  - A Ring No Answer (RNA) time out occurred;
  - Maximum number of calls for the rule has been exceeded;
  - Maximum number of queued calls for a give rule;
  - Abnormal call terminations:
    - Receiving a 4xx, 5xx or 6xx response codes.
    - Far-end terminates the call prior to answering (SIP CANCEL for SIP).
    - Not receiving RTP packets for a given duration (optional, duration is configurable) after a 200 OK
- TCP/UDP selection
- Translations
  - DNIS
  - ANI
  - Caller name
- Enable I3 outbound calls (location and other I3 headers)
- Enable RFAI outbound calls
- Initiate Recording (sending a SIP REC call to a SIP enabled recording device)
- Sending Notify message to an end point
- Sending SNMP Traps to an end point
- Subscribing to an end point Notify package
- Variables/parameters that can be specified by each outbound rule:
  - Priority; specifies which rule set to use in case of identical match
  - Ring No Answer (RNA) timeout
  - Far end provides disconnect supervision (useful when the destination is a PSTN Gateway)
  - Fix transfer code table to be used (useful for LPGs)
  - Translation tables to be used
  - Maximum simultaneous calls
  - Queue calls or not
  - Queue size
  - Subscription package identity
  - Notify package identity
  - Date/Time of day

4.5 LEGACY NETWORK GATEWAY (LNG)

The LNG logically resides between the originating network and the ESInet and allows i3 enabled PSAPs to receive emergency calls from legacy originating networks.

Calls originating in legacy wireline or wireless networks must undergo signaling interworking to convert the incoming Multi-Frequency (MF) or Signaling System Number 7 (SS7) signaling to the IP-based signaling supported by the ESInet.

Thus, the LNG supports a physical SS7 or MF interface on the side of the originating network, and an IP interface which produces SIP signaling towards the ESInet, and must provide the protocol interworking functionality from the SS7 or MF signaling that it receives from the legacy originating network to the SIP signaling used in the ESInet.

The LNG shall be implemented for routing emergency calls to the appropriate ESRP in the ESInet.

To support this routing, the LNG must apply specific interwork functionality to legacy emergency calls that will allow the information provided in the call setup signaling by the wireline switch or MSC (e.g., calling number/ANI, ESRK, cell site/sector represented by an ESRD) to be used as input to the retrieval of location information from an associated location server/database.

The LNG shall use this location information to query an ECRF and obtain routing information in the form of a URI.

The LNG must then forward the call/session request to an ESRP in the ESInet, using the URI provided by the ECRF, and include callback and location information in the outgoing signaling.

While in operation LNG shall be capable of appending supplemental and supportive call information such as location and callback number to the call prior to the ESInet.

The LNG shall also be capable of supporting SIP SUBSCRIBE/NOTIFY in order to understand any downstream elements status and then implement policy routing should a nominal route for a call not be available.

Respondents shall describe how their proposed solution permits a legacy network gateway (LNG) function to integrate the legacy network with the ANGEN core.

Comply The Solacom LNG can be deployed as a standalone unit where it can interface to legacy voice networks using SS7, ISDN PRI, SIP, FGD or T1 CAMA or analog CAMA trunks. The LNG can also query a LIS using a NENA 08-003 HELD protocol compliant message scheme to get the caller's location and send it in the form of a PIDF_LO in the SIP INVITE toward an ESRP. An LNG can be made to target one or several ESRPs in a load sharing mode, or in a primary and alternate fashion. The LNG can also be deployed in a LNG/ESRP functional element. In this case the LNG/ESRP box would perform both NENA 08-003 compliant HELD and LoST queries to identify the Primary PSAP. Once the Primary PSAP is identified, the PRF is used to identify the primary route and secondary routes if required.

Solacom proposes to use 2 LNG/LSRG functional elements deployed at the ASA data centers in Huntsville and Montgomery.

The LNG and ESRPs implement a NENA 08-003 SIP compliant message scheme towards the PSAPs.

4.6 LEGACY PSAP GATEWAY (LPG)

A legacy PSAP gateway (LPG) is used to provide seamless connection to PSAP's that have not upgraded to NG9-1-1 PSAP operations.

The Legacy PSAP Gateway is a signaling and media interconnection point between an ESInet and a legacy PSAP.

It plays a role in the delivery of emergency calls that traverse an i3 ESInet to get to a legacy PSAP, as well as in the transfer and alternate routing of emergency calls between legacy PSAPs and i3 PSAPs. The LPG shall support the LoST protocol in order to provide selective transfer information (minimally police, fire and EMS) to a legacy PSAP based on the routing polygons provided by the local ECRF.

The Legacy PSAP Gateway supports an IP (i.e., SIP) interface towards the ESInet on one side, and a traditional MF or Enhanced MF interface (comparable to the interface between a traditional Selective Router and a legacy PSAP) on the other.

The Legacy PSAP Gateway also includes an ALI interface (as defined in NENA 04-001 or NENA 04-005) which can accept an ALI query from the legacy PSAP.

The LPG must then respond with location information for a call that is formatted according to the ALI interface supported by the PSAP. Respondents shall describe their solution for the LPG to support the legacy PSAP environment.

Comply.

In the proposed solution, the LPG functionality is implemented using a combination of PSAP-based gateway equipment and a network-based ESRP and NG ALI database. The ESRP structures the VoIP/SIP call for the PSAP so that the local gateway can convert the call to a standard CAMA trunk that is connected to the Legacy PSAP Controller. The Legacy Controller also is connected via a data link to the NG ALI database. The controller connection is a standard ALI i2 interface. The controller executes an ALI query to the NG ALI database to retrieve caller location.

The legacy PSAP gateway (LPG) is a transition element that provides the interface between the new ESInet and existing legacy PSAPs. The LPG converts the i3 call (containing caller location) to CAMA for delivery of calls to legacy PSAPs. The PSAP then executes an ALI query as it did before over legacy ALI circuits. The LPG essentially makes the ESInet transparent to the legacy PSAP - calls continue to be delivered over CAMA trunks. The proposed system uses a combination of Network and PSAP based functionality to provide the LPG Functional Element. The network based elements are the ESRP and NG ALI(with modified interfaces to provide that portion of LPG). The PSAP equipment are Media gateway units and Serial to IP converters.

The advantages to using a combination of network and PSAP based equipment are firstly a lower upfront cost to implement the LPG, and secondly is that when the transition takes place from legacy to Next Gen at the PSAP, very little equipment decommissioned post transition is required.

The ESRPs handle conferencing requests and the fixed transfer * codes (3 digits or 2 digits are supported). The associations between a * code and a Telephone Number or URI is actually contained in tables inside of the ESRP. Multiple tables can exist. The outbound call policies allow specifying which table should be used for a given route.

Managing the * codes in the centralized ESRP facilitates the management of the * code tables.

The advantages to using a combination of network and PSAP based equipment are firstly a lower upfront cost to implement the LPG, and secondly is that when the transition takes place from legacy to Next Gen at the PSAP, very little equipment decommissioned post transition is required.

4.7 LEGACY SELECTIVE ROUTER GATEWAY (LSRG)

The primary function of an LSRG is to allow traffic from legacy Selective Router based networks to ESInets.

A Legacy Selective Router Gateway (LSRG) shall serve as the interface for legacy selective routers to terminate ISUP SS7 trunks utilizing an inter-tandem trunk group method of termination.

The LSRG shall convert the call signaling to SIP/RTP, query the existing ALI data management system to retrieve location information for the call and then route the call to the next nominal HOP based on a LoST query to an ECRF.

Additionally, the LSRG shall be able to facilitate bi-directional communications with the legacy selective routers for both voice and data (star codes) transactions.

Respondents shall include a description of the LSRG *if utilized* in their proposed solution to integrate the ESInet and legacy selective routing configuration. If an LSRG is not utilized, the respondent shall describe how the function of an LSRG is performed within their proposed solution.

Comply

The LSRG function as described in the response to paragraph 4.6 is incorporated into the LNG/LSRG units. SS7 Interface to legacy Selective Routers will be the default interface type.

4.8 LOCATION VALIDATION FUNCTION (LVF)

Respondents shall propose a solution that includes an NG9-1-1 Location Validation Function (LVF) as defined in the NENA 08-003.

The LVF is generally only used for civic location validation. Geo coordinate validation has some limited use, in extreme cases, including national boundary routing scenarios, over coastal waters, etc. The primary validation is accomplished as locations are placed in a LIS.

The LVF shall be designed to respond to LVF clients within five (5) seconds. The LVF shall be capable of supporting multiple simultaneous queries of a significant amount, respondents shall describe how this is supported.

The LVF data and interfaces are similar to those used by an ECRF representing the same geographic area(s). Additionally, it must support both iterative and recursive queries to external LVF sources.

Respondents shall describe their proposed LVF implementation, with particular attention to the arrangement of the proposed components, user interface and features and the security aspects of the LVF.

Comply.

NENA Compliance

GeoLynx Spatial Router LVF is an IETF 5222 compliant LoST Server that provides the NENA i3 functional elements of ECRF/LVF as specified in NENA TSD 08-003.

Simultaneous & High Volume Requests

The GeoLynx Spatial Router LVF design is capable of handling many simultaneous and concurrent requests. It is designed to produce sub-second responses to most basic queries, and process larger requests very quickly.

The design is easily expandable and can accommodate geographic redundancy, if required. GeoComm will automatically increase capacity if response time exceeds an exceptional threshold.

Availability

To ensure the LVF proposed remains highly available, GeoLynx Spatial Router LVF will be deployed in a fully redundant single cluster manner, in a single datacenter at initial implementation. The GeoLynx Spatial Router LVF system will be provisioned using the same mechanisms and data as the GeoLynx Spatial Router ECRF which will ensure the system is kept as available and current as possible. As designed, the LVF system is easily expandable, allowing for additional redundancy and capacity as the state requires, by implementing additional hardware to the system.

Database Synchronization with ECRF

GeoLynx Spatial Routers are LoST servers, no matter if they are being used for LVF or for ECRF. As such, they use the same GIS database, which is replicated and propagated across the system using the provisioning process.

Interfaces Supported

GeoLynx Spatial Router LVF supports the LoST interface.

Web Portals

GeoLynx Spatial Router is equipped with a dashboard for monitoring real-time statistics, load, query response behavior, and individual query contents, system wide and per server.

Documentation

The GeoLynx Spatial Router LVF can be utilized directly by any authorized 9-1-1 entity needing to perform NG9-1-1 i3 location validation in place of or alongside legacy 9-1-1 MSAG style validation. GeoLynx Spatial Router supports LVF using site and/or structure layers and also address ranged road centerline layers.

In i3 networks, MSAG is replaced with a GIS based LVF. Before civic address locations are entered or updated in a Location Information Service (LIS), the address records must be validated to ensure they are adequate for routing, dispatch. This is accomplished by locating the civic address in the authoritative GIS database for the service area:

LVF queries include a validateLocation=true attribute. When this attribute is present and set true in the query, then GeoLynx Spatial Router treats the request as a location validation request, and returns a LoST <findServiceResponse> that includes location validation elements stating which parts of the provided civic location passed validation, failed validation, or were unchecked. The same geospatial data set is provisioned to all GeoLynx Spatial Routers in the system whether they are being used for ECRF or LVF queries.

Features

- IETF 5222 compliant LoST Server providing NENA i3 LVF
- Validates civic locations prior to entry into a LIS using the LVF
- Can play multiple roles in LoST hierarchies, including Forest Guides, state level LVFs, and "leaf node" LVFs
- Supports PIDF-LO geodetic location types of point, polygon, circle, ellipse, and arc-band
- Supports PIDF-LO civic location types, including fine grained components handling building, floor, suite, room, and seat

4.8.1 LOCATION SERVICES

Location is fundamental to the operation of the 9-1-1 system. Location is provided external to the ESInet, and the functional entity which provides location is a Location Information Server (LIS).

Respondents shall propose a solution that supplies a network interface to the LIS.

Respondents must include the necessary security provisions and define all communication paths between the LIS and the LVF, LSRG and LNG.

Respondents shall include a description that covers the transition from the existing routing into the LIS.

Comply.

After a LIS has been implemented, we will ensure compliance with any security requirements as they are developed.

DataBond will support an incremental transition of PSAPs from traditional ALI services to full i3 interfaces. DataBond can use either MSAG or the LVF for validating incoming service orders.

DataBond will continue to operate as a traditional ALI so long as there are functional elements (PSAPs, Selective Routers, etc.) that require this legacy data mechanism. It simultaneously supports HELD queries to emulate a LIS using the same data as the ALI functions.

DataBond support traditional ALI interfaces and provisioning as described in:

- NENA 02-010: "Standard Legacy Data Formats For 9-1-1 Data Exchange GIS Mapping Data Structures
- NENA 02-501 "Wireless (Pre-XML) Static and Dynamic ALI Data Content Information Document"
- NENA 04-005: "ALI Query Service Standard"
- NENA 02-011 "Data Standards For Local Exchange Carriers, ALI Service Providers & 9-1-1 Jurisdictions"
- NENA 02-015 "Standard for Reporting and Resolving ANI/ALI Discrepancies and No Records Found for Wireline, Wireless and VoIP Technologies"
- DataBond supports NG9-1-1 standards as described in:
- NENA-INF-008.2-2014 (originally 77-501): "NG9-1-1 Transition Plan Considerations Information Document"; (LDB section)
- NENA STA-010 v2 (aka NENA 08-003): "Detailed Functional and Interface Standards for the NENA i3 Solution"; (LDB, LIS, LVF, and ECRF sections).
- IETF RFC 5985: "HTTP-Enabled Location Delivery (HELD)"
- IETF RFC 5139: "Revised Civic Location Format for Presence Information Data Format Location Object (PIDF-LO)"

Complete documentation of the data creation, operations, and maintenance are considered proprietary documents and will be shared upon contract execution.

4.9 LEGACY DATABASE SERVICES

The Board recognizes that ALI database and other legacy database services (LDB) will be required for the foreseeable future.

Respondents shall include in their proposal details about their approach to ALI database connections and ALI maintenance functions as well as other any other LDB functions necessary to support the ANGEN system.

Respondents shall define how their proposed LDB service will be operated, managed and maintained for the duration of the contract.

Respondents shall also describe the PS/ALI capabilities of their solution within their proposal.

Comply.

SOI processing

Using 911 Datamaster's Databond, all daily Service Order Information (SOI) files are submitted via WebDBMS. All Service Orders are processed automatically, shortly after they are received. All Service Orders and manual updates are validated against the MSAG to ensure data integrity. Any Errors are placed in "Customer Correction" and also returned to the Telephone Service Provider (TSP) via Service Order response file.

MSAG Maintenance

Using the 911 Datamaster platform a legacy style MSAG will be available to validate daily SOI activity from all landline carriers. The MSAG is developed from information contained within the LVF and is updated on a regular basis.

ANI/ALI Discrepancies/NRFs

ANI/ALI Discrepancies and No Record Found (NRF) are managed and distributed via 911 Datamaster's WebDBMS platform. Once a discrepancy is entered into WebDBMS, it is made visible to the Addressing Authority or TSP based on existing discrepancy resolution processes.

PS/ALI

911 Datamaster platform provides an interface for PS/ALI Customers to insert/update/delete their own records assigned to their NENA Company ID. This interface can allow the PS/ALI Users to either submit NENA 2.1 SOI files to update their records or make manual updates to their TNs via a Web based Interface. This interface limits the PS/ALI users to assigning TNs and Addresses that are assigned to their profiles.

DataBond is an evolution of 9-1-1 ALI. It can serve as a 'Location Database' (LDB), which is defined by NENA as a data structure that can serve as both an ALI and a LIS operating within a 9-1-1 authority's jurisdiction. Since DataBond integrates with both existing and NG9-1-1 infrastructure, it allows for the migration to NG9-1-1 technology on your schedule without the need for a 'fork lift' upgrade. Our innovative software facilitates a migration mechanism of both data and business processes, making the transition a flexible, yet controlled, evolution. DataBond supports current and future versions of location validation, emergency call routing and location-based call routing.

DataBond consists of database and database management software. It provides request / response and is compatible with all leading ANI / ALI controllers as well as NG9-1-1 components such as Legacy Network Gateways (LNGs) and Emergency Service Routing Proxies (ESRPs). Our software can provision customer location data manually and in batch.

Some of the key features of DataBond include:

- Microsoft™ Server-based for ease of use, lower cost and easy maintenance
- Encompasses all of the specifications for 9-1-1 ALI and LIS
- Supports IP communications with controllers and PSAPs
- Supports HTTP Enabled Location Determination (HELD)
- Meets NENA ALI Query Service (AQS) Standard
- Meets J-STD-036 and E2+ cellular standards
- Interfaces with 9-1-1 DBMS software for ALI / LDB updates
- Supports replication with remote LIS implementations
- Scalability from less than one thousand to more than 50 million records
- Provides ALI response to multiple PSAP controllers
- Provides five call history-input and store details about a particular phone number
- Simple or advanced password protection and user login auditing
- Automatic synchronization of records on two Servers for full redundancy and reliability
- Maintains logs of call activity and imports and selective router updates
- Automatic status notification via pager, email, TL1 and SNMP
- Supported by 911 Datamaster's comprehensive, 24/7/365 software support

DataBond supports important standards such as:

- NENA 02-011: Data Standards for Local Exchange Carriers, ALI Service Providers & 9-1-1 Jurisdictions
- NENA 02-015: Standard for Reporting and Resolving ANI/ALI Discrepancies and No Records Found for Wireline, Wireless and VoIP Technologies
- NENA 04-005: ALI Query Service Standard
- NENA 57-501: Wireless Phase I & II Features and Functions Information Document

4.10 DISASTER RECOVERY / BUSINESS CONTINUITY

Respondents must include a disaster recovery capability within the proposed solution to offer continuity of operations in the event of a malfunction of the network, system or i3 components used to provide the primary ANGEN services.

This service must be separate and distinct in design and operation from the core ANGEN system components proposed by the Respondent.

Alternatives presented here may include the use of commercially available services and or commodity IP connections that can operate for temporary periods of time (to be determined via

SLA) until normal system operations are restored to individual PSAPs or regions served by the ANGEN system.

Basic functionality must include the following at all PSAPs or locations as may be designated by the Board:

- o Receive and answer 9-1-1 voice calls via alternate hand set/desk set or other proposed device
- o Ability to Transfer via traditional landline or other means to other AL PSAPs, mirroring current PSAP transfer capabilities and practices
- o Provide for the temporary system level logging and recording of calls being processed by the disaster recovery system

Comply.

In terms of availability, resiliency and reliability; the Guardian NG9-1-1 system hardware components are Telephone Company grade and engineered to deliver 99.999% system reliability.

In order to provide malfunction recovery, the Guardian system uses the following architecture: a pair of application servers (Side A and Side B) and operates in an active/active mode. Side A and Side B are identical, thus providing all of the required capabilities and functionality, independently.

Server replication is used to maintain the two sides in synchronicity. Guardian Call-taker Workstations for a given PSAP are normally configured to use Side A as their Primary side and Side B as their Secondary side. Guardian Call-taker Workstations will detect a failure of the Primary side and automatically switch-over to the Secondary side to continue operation.

Back-to-Back proxies will accomplish the same for incoming trunks and lines to redirect calls to the Secondary side in the event of failure of the Primary side. Established calls will be preserved and an attempt will be made to re-present each call to the call-taker that was in the process of handling the emergency call.

A system alarm will be generated and normally configured to send to the Network Operations Center (NOC). Once the failure is corrected, the system will re-sync the database automatically. The technical staff can verify that the failed side is totally restored and, at that time, push the affected Guardian Call-taker Workstations back to the primary side.

The system is engineered to provide system-wide reliability. Some of the system's key performance, redundancy and reliability attributes are:

- Servers are commercial off-the-shelf (COTS) and carrier grade with redundant and hot swappable components, such as fans and power supplies.
- The A and B sides are identical, providing all of the required capabilities and functionality independently
- The two sides can be located in the same cabinet or can be located at geo-diverse location, to provide a Geo-diverse configuration, without any special requirement other than the bandwidth required to provide connectivity between each location.
- Network efficiency requires approximately 100 kb of bandwidth, for each PSAP call taking position. This allows the system to run high-quality G.711 codec to provide superior audio quality.

- Support for diversification of trunks and lines with transparent routing of calls to the side where the 9-1-1 call takers are active.
- Superior VoIP cards offer higher performance than server-based equivalents and provide a unique conferencing capability that does not require an external conference bridging hardware. This design supports up to 1,024 participants in a conference call and many other advanced features.
- The proposed NG9-1-1 system is IP from its core design to the desktop; it accepts VoIP calls natively while at the same time retaining backward compatibility with legacy telecommunication circuits and systems, simplifying and reducing the amount of PSAP equipment needed to transition to NG9-1-1.
- In the event that a remote PSAP fails, the system detects the failure and instantly delivers all calls destined for the disabled PSAP to a designated back up PSAP. Once the disabled PSAP is restored, call traffic is restored as well.
- Enhanced failure detection based on lack of audio streaming from positions or other endpoints.
- Enhanced external link (LIS and ECRF) redundancy by supporting primary and secondary links without reliance on DNS based services.
- Maintenance and upgrades are performed without impacting service.
- In addition, the NOC continuously monitors individual system components as well as the system's overall "health". Alarms are generated when predetermined performance thresholds are exceeded that may jeopardize the reliable delivery of calls or data.
- Simple Network Management Protocol (SNMP) query is used to monitor system components. Component failure or degradation triggers an alarm.
- Internet Control Message Protocol (ICMP) triggers an alarm on any network communication delays that are abnormal. The Network Interface Cards (NICs) of IP devices are monitored to detect abnormally high incoming or outgoing traffic, or traffic with errors.
- Individual lines on analog gateways are monitored to detect abnormal network usage or Central Office line status change (Disconnect/Reconnect).

The solution can also provide valuable information regarding the performance of the networks - QoS measurements are captured by the Management Information System.

AL-NG9-1-1-RFP-16-001 ATTACHMENT D- Technical Specifications

SECTION 5 SYSTEM REPORTING and i3 LOGGING REQUIREMENTS

5.1 REPORTING AND DATA COLLECTION SYSTEM REQUIREMENTS

The Board requires enterprise wide reporting and data collection capabilities on all aspects of the ANGEN ecosystem.

This capability must be agnostic to provider, system or technology and must be able to collect reportable data on the operation, configuration, and maintenance of the ANGEN system regardless of function, domain, service area or provider.

Given that there may be multiple providers of components and systems that will comprise the ANGEN ecosystem, the Board will entertain stand-alone proposals from vendors who can offer an enterprise wide, multi-vendor, fully integrated solution to satisfy this requirement.

Respondents may offer enterprise wide reporting as a component of their solution as well.

The Board will not entertain proprietary, disparate or system specific reporting systems.

Respondents must be prepared to provide or support the collection and integration of an enterprise wide reporting and data collection capability.

Comply.

The following is a description of the management information system ("MIS") product proposed for this project.

Assumptions:

- The MIS reporting platform can provide all call handling and network reporting requirements as described by the Alabama 9-1-1 Board and contained within this RFP. The following assumptions have been made with answers to all required sections:
- An i3 based ESINet is in place, statewide, and can send logging messages to the MIS i3 Meta logger.
- MIS (its data collectors) will reside on the same network as the CPE and ESINet functional elements to ensure the ability to collect data from all systems.
- All call handling equipment is able to provide either an i3 based call handling log or a CDR output.
- CDR output is assumed to contain operator/agent data in addition to all call handling fields (e.g., seizure time, ring time, answer time, etc.).
- The systems on the ESInet that provide i3 logging outputs are conforming their log output to the Detailed Functional and Interface Specification for the NENA i3 Solution, Stage 3 Version 1.

MIS FEATURES

MIS includes the following preconfigured reports:

STANDARD REPORTS

Call Summary Report

A listing of all of the calls answered and abandoned by call type (e.g. “9-1-1” or “10 digit emergency”) for each day of the selected time frame.

Calls Per Hour Report

A listing of the number of calls delivered to the CPE controller each hour of each day for the selected time frame.

Top Busiest Hours Report

A listing of the top 20 busiest hours for any selected timeframe which includes the call count and average call duration for the selected period.

Average Call Duration Report

A listing of the number of calls each hour during the selected time frame with the queue time (average duration from trunk seizure at the PSAP to ring start, also known as Set-up Time), ring time (average duration from ring start to answer time, if equipment provides the required Ring Event), hold time (average duration calls are on hold during that hour), and talk time (average duration from answer time to disconnect time minus any hold time that occurred during the call, this is a pure talk time metric).

Calls by Circuit Report

A listing of the number of calls received on each circuit each day during the selected timeframe.

Circuit Utilization Report

A statement of the percentage of time that a given number of incoming trunks were engaged at the same time within each trunk group (trunk groups are defined by each PSAP). This report provides statistics on trunk groups allowing management to identify trunk groups that are over or under trunked.

PSAP Answer Time Report

A statement of the number of calls that were answered in 10 seconds or less, 20 seconds or less and other answer times for each hour of the selected timeframe. The summary information includes the number of calls in each answer time category and the percentage for each category. Answer time is computed between Call Seizure and call Taker Answer times.

PSAP Call Taker Ring Time Report

CPE Equipment that provides a ring time event will be able to measure call taker ring time by measuring the time between the ring event and the answer event. For the equipment that does not have this event, a false ring time factor can be introduced to simulate a single ring (usually 2 seconds) or if this is not used this report would match the PSAP answer time and measure from seizure to answer.

Last 12 Months Answer Time Report

Provides summary information for each month within a 12 month period including the number (and corresponding percentage) of calls answered in 10 seconds or less.

Last 12 Months Call Taker Ring Time Report

The Last 12 Months Call Taker Ring Time Report gives the total number of inbound, parsed calls for the last 12 full months from when the report was generated. This report, similar to the PSAP Call Taker Ring Time Report, utilizes ring times, calculated from when the call is presented to the call taker to when the call is answered (meaning that there is no set up time included in the calculations). This report provides the percentage of calls with ring seconds between 0 and 10 as well as the total number of calls answered within 10 ring seconds, per month.

Class of Service Report

A listing of the number of calls for the selected timeframe broken down by a selected subset of classes of service from the ALI data string such as business (BUSN), residential (RESD), Centrex (CNTX), PBX, pay phone, VoIP, or wireless phase 1 WPH1/W911) or phase 2 (WPH2).

Call Initial Station Total Calls Report

A listing of the number of calls received each hour at each answering position during the selected timeframe. Requires the source data to include the station identifier for each answered call.

Call Transfer Report

Provides details regarding every call that was transferred to or from the PSAP during the selected timeframe. Details include ANI information, trunk seizure time of call(s) at each PSAP and other relevant call information. All PSAPs must be participating in the MIS program to show up on the Transfer report, any secondary that is not in the MIS system would not appear in this report. In order to maximize call transfer report accuracy, all participating PSAPs must synchronize their system clocks with an industry standard network clock service or device. In addition, this report provides PSAP-to-PSAP transfers and does not include internal station-to-station transfers.

Call Transfer (Summary) Count Report

The Call Transfer Count report provides the user with counts for every transfer to and from the selected PSAP for the date range chosen. The report uses the same rules to determine transfers as the current transfer report.

Calls by Operator

The Calls by Operator report allows a user to identify how many calls have been answered by particular users logged into the system. This report is generated by CDR output to the remote data distribution module ("RDDM"). If user information is not available for a particular call, information will be directed to an "Unknown Operator" row. This category is used in any situation in which an operator name is not provided with the call, this often occurs when CDR data considers a call abandoned. This report divides the calls received in a given time frame by operator name and hour of day in military time.

Operator Speed of Answer

The Operator Speed of Answer report allows a user to identify the speed with which individual operators are answering calls. This report is generated by the CDR output. If the operator name information is not available for a particular call, calls will be directed to the "Unknown Operator" row. This report is divided into separate answer time frames. The report also will identify the total calls answered as well as the average duration of the calls in seconds.

AL-NG9-1-1-RFP-16-001 ATTACHMENT D- Technical Specifications

Calls per Hour by Day of Week

The Calls per Hour by Day of Week report lists the number of calls for each hour of the day, by day of week (increments also apply). Depending on the call type selected, the Calls per Hour by Day of Week report will conform to the available data. The report also features a row with the average number of calls per day of the week.

Top ESN Report

The Top ESN report will provide frequency information on the Top ESNs for the date range selected. If multiple ESNs have the same number of calls, they will all be listed on the report. A total number of records and the average duration of those calls are also included on the report. This report will only support 911 Call Types because the ESN information will be pulled from the ALI of each call.

Top ANI Report

The Top ANIs report will provide frequency information on the Top ANIs for the date range selected. If multiple ANIs have the same number of calls, they will all be listed on the report. A total number of records included in the report, and an average duration of those calls is also included.

Graphical Capabilities

The product supports a wide range of graphical representations of the data being showcased in each report. Although the system will dynamically select the most appropriate graph type based on the data being reported, each user has the ability to change the graph type before the report is generated. The MIS supports line bars, pie charts, life graphs and stackable bars.

MANAGEMENT REPORTS

In addition to the Call Statistics Report usually found in 911 MIS packages, MIS brings a wide range of Management Reports. These types of reports specifically address the analytical requirements of PSAP Managers across the industry. Management reports are available to selected authorization levels that provide tools necessary to identify areas and issues that require management attention.

MIS includes the following management reports:

Trunk Group Utilization Report

This report provides an in-depth analysis of call volume per trunk and trunk group. PSAP managers or coordinators can review and determine if PSAP trunks are being used at appropriate rates (e.g., are they hunting correctly, are they reaching capacity resulting in possible busy signals, etc.).

Answer time Exception Report

This report provides a clear scorecard of PSAP answering performance while clearly isolating those PSAPs that meet the National Emergency Number Association (NENA) 90/10 rule – 90 percent of the calls should be answered by each PSAP in 10 seconds or less. This report lists the PSAP(s) that answered less than 90% of calls within 10 seconds during selected time period.

Call Taker Ring Time Exception Report

This report lists the PSAPs where 90% of calls have a ring time of 10 seconds or less during selected time periods. If the selected PSAP(s) are answering 90% of calls within 10 seconds for the selected date range, the report will show 'no data available for specified date range'.

Outage Report

This report provides the ticket number for each data monitoring alert provided by the MIS system. This includes call records without ALI alerts, low call volume alerts, and heartbeat alerts. A high level user will have access to the MIS monitoring system, allowing the user to query based on ticket number. This offers an unparalleled level of transparency into the MIS ticketing system, providing to the user the ability to escalate and track tickets as desired. However, it should be noted that MIS tracks all outages to resolution, with notification to necessary parties as determined by the customer, regardless of customer use of this report.

10-Digit Emergency Call

A listing of the 10-digit emergency circuits that exceed a predetermined level of utilization as a percentage of total 9-1-1 and 10-digit emergency calls.

Unparsed Data

A listing of the raw data for each call that failed to meet predetermined business rules for a specific CPE manufacturer (i.e., raw data reflects disconnecting the call multiple times even though it is only answered once) or had a problem with the raw data which prevented it from being parsed (e.g., call record cut-off or interference in the data stream, causing corruption).

WIRELESS ROUTING REPORTS

Wireless Call Sector

The Wireless Call Sector report provides transfer information based on cell sectors for the specified date range. If a PSAP transfers 50% or more of their calls from a specific cell sector to the same destination PSAP, it will show up on this report.

Note: This report will include 9-1-1 calls, Administrative and any 10 Digit Emergency calls with ALI that meet the above requirements.

CUSTOMIZATION

The MIS system is fully configurable to adjusting reports based on the specific standards and efficiencies required by the Alabama 9-1-1 Board. As an option to the RFP, bundles of customization hours are provided to the Alabama 9-1-1 Board to give the ability to procure customization hours at wholesale costs as described in Attachment C, Cost Proposal.

OPEN ARCHITECTURE

It should be noted that MIS is built using industry standard open architecture which ensures its ability to interoperate with other technologies including CPE vendors, Network Providers, Telecommunication Providers, Data and Voice recorders and others. MIS provides multiple methodologies for interoperability from direct physical interfaces to more complex logical interfaces that leverage the i3 standards for collection, recording and storage of i3 events.

For the ALI database, 911 Datamaster has developed a comprehensive list of reporting over the past 20 years. Robust reporting capabilities were driven primarily by industry standards (aka NENA Requirements) and End User/Partner needs requests. As needed enhancements were identified, they are prioritized based on market need. Virtually all reporting developed has been incorporated into the standard offering release of software. This same approach is used in prioritizing needed industry interfaces.

5.2 STATEWIDE STATISTICAL MONITORING

5.2.1 SYSTEM SPECIFIC REQUIREMENTS:

The proposed reporting and data collection system must provide for secure user ID login and password with the ability to enforce minimal password requirements and require password changes on a predetermined interval.

The proposed reporting and data collection system must support role based access:

- Allowing statewide users to have access to reports for the entire State.
- Allowing some users to have access to PSAP(s) report information only.
- Allowing other users to have both PSAP and ECD Manager level access to report information.
- Allowing functionality/data to show only to certain users and not to everyone.

The proposed reporting and data collection system must allow for the scheduling of automatic report generation and delivery by email as attachments to one or more recipients in a format selected by the recipient.

Comply.

Users are created with approved credentials by the system administrator. These credentials can be set at a granular level.

ROLE BASED ACCESSIBILITY

MIS provides a secure user ID login and password based on each user's specific role. The system has the ability to enforce minimal password length and complexity as well as password changes.

The Alabama 9-11 Board will be requested to provide the assigned roles and responsibility per user in the MIS portal. MIS has the ability to add functionality and take functionality away based on a specific role. For example, a County Director's login will have access to all PSAPs within their county while a PSAP Manager's login will only have access to their specific PSAP within the County. MIS is only accessible via assigned usernames and passwords.

MIS reporting functionality is governed by 'roles' and 'PSAP groups' that determine which section(s), subsection, data and PSAPs each user may view/report on. The MIS system uses a custom Access Control List (ACL) used to associate individual users with particular functions and PSAP(s) that they can report against. Authentication is provided through a username/password combination required at the web site. Users have the ability to update their passwords and changes are required on a configurable rotation setting. Once authenticated, the user authorization occurs through a use of roles and user groups to assign the user to a particular reporting group and control what types of reporting the user is able to access (for example hiding management reports from a non-management users). Each action done in MIS can be logged by the platforms optional Audit Module (available for an additional license cost) which records all standard, ad-hoc and raw data views done by a user.

PASSWORD MANAGEMENT

MIS provides secure user ID logins and passwords with the ability to enforce minimal password requirements. MIS can be configured to require password expiration at any interval. The Alabama 9-1-1 Board can choose any interval required of their security doctrines.

Requirements:

- Allowing functionality to show only to certain users and not to everyone.
- Allowing some users to have access to PSAP report information only.

MIS has the ability to show specific functionality to certain users and not to everyone based on their role. The MIS solution has a comprehensive role system that controls individual user access to various sections of the system. By adding/removing roles from users access to various parts of the system can be controlled. The role system and report management system provides administrative control to the report and function level as required by the State of Alabama.

Requirements:

- Allowing statewide users to have access to reports for the entire State.
- Allowing other users to have both PSAP and ECD Manager level access to report information.

MIS provides the ability for statewide users to have access to reports for the entire State while other users have both PSAP and County level access to report information. The administrative interface associates individual users with single or groups of PSAPs to generate reports on. Users can be assigned to either individual PSAPs or in a PSAP group that has more than one PSAP. Control of which PSAPs the user can access are defined by the Alabama 9-1-1 Board and only those PSAPs the user has been approved for access will be available for reporting.

Requirement: The proposed reporting and data collection system must allow scheduling of automatic report generation and delivery by email as attachments to one or more recipients in a format selected by the recipient.

SCHEDULED REPORTS

MIS users have the ability to schedule reports to be automatically rendered and sent directly to their email. Management level reports are available to specific authorization levels on a regular or scheduled basis. Authorized users are advised via e-mail notification that monthly reports are available one or two days following the end of each month.

AL-NG9-1-1-RFP-16-001 ATTACHMENT D- Technical Specifications

One scheduled report that is of benefit to PSAP managers (and can be made available to standard users) is the "Day in Review" report. This report provides a snapshot of PSAP activity and is delivered to users via e-mail at the end of each day. The Day in Review report includes the following information for the day:

- Total Number of 911 Calls Received
- Total Number of 911 Calls Answered
- Total Number of 911 Abandoned Calls
- Total Abandoned 911 Call %
- Total Abandoned 911 Call % at Workstation
- Average Call Duration of the 911 Calls
- Statistics on PSAP Answer Time Performance
- Listing of the five busiest hours of the day and the number of calls each of those hours (911 Call Only)
- Listing of the five busiest hours of the day and the number of calls each of those hours (All Call Types)

Along with the Day-In-Review email, users can sign up through the MIS portal to have all or selected Management Reports scheduled to email as well. MIS has the capability to have both pre-configured and management reports scheduled and sent to the user, therefore eliminating the need to render reports daily unless needed.

Reports can be generated in the web-browser, in a PDF format, or Excel format. These reports can be saved, emailed, and printed in the user's format of choice and accessible by any MIS user based on their role anytime anywhere.

5.2.2 DATA CAPTURING REQUIREMENTS:

The proposed reporting and data collection system must provide the following:

- Ability to electronically capture and buffer Call Detail Records (CDR) for each individual PSAP.
- Ability to securely capture call, text and operational data using a reliable capture method
- Ability of a buffering device to batch CDR payload, time stamp it, encrypt it and deliver the CDR data using a secure and encrypted methodology.
- Ability to provide multi-level reporting including: PSAP, ECD/County or Statewide level.
- Ability to seamlessly report PSAP, ECD/County and State's 9-1-1 call statistics from one web-based location regardless of the CPE installed at PSAPs or other hosted locations.
- Ability to export reports in PDF, HTML, CVS and Excel formats
- Ability to generate universal reports from anywhere with an Internet connection and accessible on any devices with an internet browser, i.e. iPad, iPhones, iOS, Android or Windows based systems, laptops and desktops.
- Ability to analyze ANGEN's overall 9-1-1 system performance

- Ability to provide a color coded map view of the State's System Health for all PSAPs in the State.

Comply.

Requirement: Ability to electronically capture and buffer Call Detail Records (CDR) for each individual PSAP.

RAW DATA COLLECTION AND ACCESS

Through the MIS Raw Data Viewer the user has access to all raw CDR records at their PSAP/PSAPs from the time of inception in electronic format. The CDR and ALI data is archived and stored for storing and reporting purposes, providing PSAP Managers with access to all archived data remotely online using the MIS web portal. By using the Raw Data Viewer portion of the interface, MIS allows the users to pull Raw Data from any day and from any PSAP that the user has access into.

Note that all the CDR output is stored in its original format for auditing purposes. All the information regarding calls, ALI and ANI results, etc. is stored as-is and provided back to the user in the same chronological order as received by the buffering equipment.

Additionally, MIS allows the user to preview all generated reports on-screen before saving, printing or emailing. Once report parameters have been identified the user can select web, excel or PDF output types.

Requirement: Ability to securely capture call, text and operational data using a reliable capture method

DATA COLLECTION

The MIS has been designed to satisfy the rigorous data collection needs of the 911 call center. Each device is running a special custom software stack. The software provides the capture, compression and storage of all the data and also transmits the data over a secure SFTP connection to the MIS cloud. Finally, the software has been specifically designed to maintain the captured data in its raw form and to only "store and forward" the data, not do any analysis or manipulation. In addition to capturing CDR, the system has the ability to connect to other devices such as ALI controllers, CAD systems, Network Devices, PBXs, etc. This flexibility allows MIS to collect and report on other data points should the State of Alabama require this at a later date.

MIS TEXT 9-1-1 REPORTING

MIS provides text-to-911 reporting functionality and module. The MIS Text-To-9-1-1 reporting system is a CPE-SMS agnostic reporting system and provides reporting across all PSAPs in the MIS system. MIS offers SMS reports which provide visibility into the number of total messages sent and received, the average time to respond between caller and call taker, tracking of the top MDN's to isolate SMS abusers and full Text-to-9-1-1 transcription, just to name a few. These SMS reports can be augmented with customizations that improve the overall SMS reporting value to individual PSAPs if the standard set do not meet all reporting needs. MIS can actively collect data from TCC's which eliminates any need for additional hardware at a PSAP (except where reporting Text as TTY is required) with the ability to activate Text-To-9-1-1 reporting on a per PSAP basis without the need to make any site visit.

Provided below are a few examples of the text-to-911 reports provided by MIS:

- Transcript - The SMS transcript report provides a complete transcript for each SMS 911.

- Top Busiest Hours - The Top Busiest Hours by Sessions provides a report of all sessions for each of the busiest hours, sorted by the busiest hour to the least busy hour. With each hour, a graph is included that displays how the sessions were spread out over the hour by minute.
- Total Messages Sent and Received by Hour - The total messages sent and received by hour report provides a metric of the total number of messages (MT/MO) that happened across each individual hour. The report displays the hours in 24 hour format and provides a unique sent/received count as well as a total for each hour.
- Messages Per Hour By Carrier - The total messages sent/received by carrier report provides a metric by Carrier of the total number of sessions as well as sent/received messages. When combined with a stacked bar graph, visualization of the popular carriers is very clear. The report breaks data out per hour with a final summary report at the end.
- Operator Average Speed of Response - The operator average speed of response report measures the overall average for all messages sent within a particular Text-to-911 session. This report represents an overall average of all responses within the session for all operators that participated in the session.
- Average Session Duration - The total number of text-to-911 complete sessions report provides a report by hour of complete sessions and the average duration each session lasted as well as averages for response time of the 911 operator and Text-to-911 originator.

Requirement: Ability of the buffering device to batch CDR payload, stamp it with capture time, encrypt it and deliver the CDR data using a secure and encrypted methodology.

A time stamp is placed on any collected CDR record, regardless as to the method of collection (RS-232 or IP). The data itself is compressed and stored in a zip file and when transmitted is done over a secure SFTP connection via an SSH tunnel using strong encryption. This can be further encrypted by utilizing an encrypted point-to-point VPN tunnel between the RDDM location and the MIS cloud.

Requirement: Ability to provide multi-level reporting including: PSAP, ECD/County or Statewide level.

The MIS platform was designed for multi-level reporting across multiple different CPE platforms. The ability to render reports across PSAPs, counties, or statewide is a fundamental feature of the product. In addition, comparative reporting at multiple levels is also possible in the MIS system which provides additional comparative analysis opportunities within each reporting level (ex: compare PSAPs, or Counties).

Requirement: Ability to seamlessly report PSAP, ECD/County and State's 9-1-1 call statistics from one web-based location regardless of the CPE, Customer Premise Equipment, at the PSAPs.

The MIS system was designed as an agnostic reporting solution which can support all CPE vendors in the 911 industry. The system has been designed from the ground up to support any data stream and to normalize this stream into a common set of reportable parameters. MIS has a library that is constantly growing of ALI and CPE data parsing patterns that support all CPE currently present in the industry and can be easily expanded to those data formats that have yet to be encountered. MIS can provide demonstrations of reporting across multiple CPE's at the request of the State of Alabama.

Requirement: Ability to export reports in PDF, HTML, CVS and Excel formats

MIS provides exporting in all formats required: PDF, HTML, CSV, and Excel. In addition, the Excel export is configured to support older Excel 97-based systems (with a 65,538 row limit) and current version of Excel where the row limit exceeds one million rows. All reports in the MIS platform (Ad-hoc and standard) can be exported in the supported formats required by the State of Alabama.

Requirement: Ability to generate universal reports from anywhere with an Internet connection and accessible on any devices with an internet browser, i.e. iPad, iPhones, iOS, Android or Windows based systems, laptops and desktops.

The MIS platform is a web based standards compliant MIS system. MIS only runs from a system that can load a browser either on a mobile (iOS, Android, Windows Phone) platform or a desktop platform (Windows, OS X, Linux) that can run a standards compliant browser (e.g., Chrome, Firefox, Safari, IE). The MIS service itself is hosted at the MIS data center and if the State of Alabama allows, the access can be opened such that users can generate reports from any location with internet access vs. needing to be on a closed VPN connection from a State of Alabama network. The choice of open access vs. VPN is dependent on the security requirements and needs of the State of Alabama and MIS can accommodate any necessary model.

Requirement: Ability to analyze ANGEN's overall 911 system performance

As a system designed to provide multi-level reporting across multiple PSAPs the ability to analyze an entire statewide 911 deployment is as easy as reporting on all PSAPs in a single report. The MIS platform provides this level of reporting by combining data from the ESInet logger and the local PSAP CDR data. This enables a full end-to-end analysis of each call and of the 911 system itself. In addition to aggregating multiple data sources for a complete end-to end picture, MIS provides multiple means of grouping and sorting the data to ensure that the needed statewide information views are available and can generate the metrics required of the State of Alabama.

Requirement: Ability to provide a color coded map view of the State's System Health for all PSAPs in the State.

SYSTEM HEALTH

The MIS system provides a statewide view of all the PSAPs in Alabama using a map interface. Providing the Alabama 9-1-1 Board with a near real-time health monitoring system for all PSAPs that are covered by the MIS system. Each location is dynamically colored Green, Yellow or Red. This system health system monitors both the health and status of the RDDM collecting data at a particular PSAP and also performs real-time analytics and rendering of call volume and ALI bid activity. In the event call volume drops below historical moving averages a Low Call Volume alert (yellow) will occur bringing attention to the PSAP for call volume analysis. In addition to the call volume alerting, the system health also monitors for failed ALI bids and when concurrent failures for a single PSAP occur an alert (red) is created brining attention to the PSAP of a potential ALI bid issues.

5.2.3 AD-HOC REPORTING SYSTEM

The system must provide the ability for ad-hoc reporting functionality:

The interface must provide drop-down list boxes, check boxes and other easy to use interface options for the selection and generation of ad-hoc reports.

The interface must provide users with access to all major fields in the system with help functions that clearly explain the value stored in each field.

The user must have the ability to save and share ad-hoc reports with other users in the system.

Comply.

AD-HOC REPORTS

Ad-Hoc reporting is one of the most powerful features of MIS and accessible through a user friendly interface. The Ad-Hoc functionality empowers authorized users with the ability to generate custom reports against any data element stored in the system, on the fly, with minimal computer skills.

Ad-Hoc Reports are aimed towards advanced users of MIS who demand flexibility from their reporting services. Users are able to enter three report screen formats: Standard, Advanced, and Shared. The Standard editor gives the user an easy method for choosing and applying filters by implementing intuitive drop down lists and checkboxes for each data element. The dropdown boxes dynamically change their content based on previously selected criteria to keep the interface simple. The Advanced editor enables the user to take Ad-Hoc reporting one step further by giving the user ability to integrate SQL style Boolean expressions.

This reporting tool enables the end user to comb through large amounts of data and give the user the ability to create a report that is specific to the user's needs. Our Ad-Hoc tool enables the end user to filter on specific fields from the ALI and CDR to build a customized output. Not only can Ad-Hoc reports be saved once they are defined, but they can also be shared with other MIS users.

<u>Ad-Hoc Homepage</u>

By clicking on the Ad-Hoc button, MIS users will arrive at the Ad-Hoc home page. The homepage is a collection of the user's saved Ad-Hoc reports. Please note, there are three different types of Ad-Hoc reports: Standard Reports, Advanced Reports and Shared Reports. Standard and Advanced reports that are saved will be listed in the table on the following page.

The Ad-hoc Reporting system through the MIS portal allows each user to query the data based on user permissions and desired output. MIS features two Ad-hoc interfaces, Standard and Advanced.

<u>Standard Ad-Hoc</u>

Standard Ad-Hoc reporting is the most commonly used report generator. The search filters on the Standard viewer offer Boolean (true or false) expressions as well as distinct searches to find calls based on CDR and ALI information. There are two types of call data that a user can search on: ALI filters, Call Details and i3 Filters.

To search for partial or exact matches on a field, simply add what you are searching for in the text box and the search engine will do the rest. To include that search as an output column in the report, simply select the checkbox to the left of the field.

Ad-hoc also allows the user to narrow down reporting windows by hour, minute and second, offering the option to report by a specific shift or time/date range.

Ad-hoc reporting provides multiple output format options. These options include:

1. Web
2. Excel 97-2003
3. Excel 2007-2013
4. CSV

Advanced Ad-Hoc

Advanced Ad-Hoc reporting is more often used by advanced or frequent MIS users. The search filters on the Advanced Ad-Hoc Viewer offer Boolean (true or false) expressions as well as distinct searches to find calls based on the source and fields selected.

The Advanced Ad-hoc interface provides additional functionality for report building also using both CDR and ESInet meta data.

1. The user can choose the field to sort data by (in a descending or ascending order)
2. The user can choose the order of columns in the report
3. Totals may be selected per field, these totals include:
    - Count
    - Average
    - Min
    - Max
    - Sum
4. Multiple conditions per field may be entered

SHARING REPORTS

MIS also allows authorized users to share reports generated in the ad-hoc reporting tool with other users of the application. For instance, a user may develop an ad-hoc report that yields specific or interesting analytics regarding 911 call volumes in their county or jurisdiction. They can then share the report with other authorized users so they may discuss the contents of the report or to provide additional insight into discussion topics for upcoming meetings.

5.2.4 SYSTEM DASHBOARD

The system shall provide a web based "Dashboard" that is based on User Role. Summary data on the Dashboard will provide "drill down" capabilities.

Comply.

REAL-TIME DASHBOARD

The dashboard gives PSAP/County/State Management Personnel the ability to monitor 9-1-1 call activity in a visual real-time display.

The MIS Dashboard provides a visual representation of actual 911 call activity, answer time, hold time, and other factors, and clearly represents the real-or near-time condition of 9-1-1 within the specified jurisdiction. Additional analytics segment the data by wireless carrier providing a clear identification of wireless 9-1-1 calls or other communication data traffic through the PSAP/PSAPs in the State and/or County. Each data factor such as call volume will be compared against normative vales (averages) to identify anomalies in call traffic, call volume and call handling statistics. An area of the dashboard will be dedicated to mapping incoming calls to clearly illustrate possible areas of high traffic or anomalous call volume (either higher or lower than normal). Wireless carrier activity will also be compared against normative values and significant deviations between normal and abnormal call activity will be highlighted as an "alert" by the dashboard.

If additional functionality is desired of the real-time display, customizations can be done on a fixed bid basis after a joint application design session has been completed to determine the desired enhanced functionality.

STATEWIDE/COUNTYWIDE/INDIVIDUAL PSAP DASHBOARD DISPLAY

MIS gives its users the ability to monitor real-time 9-1-1 call statistics Statewide, Countywide and at the individual PSAP. The Alabama 9-1-1 Board will have access to a live dashboard to assist in the following:

- Gathering of real-time intelligence and actionable information to enhance emergency response and public safety anywhere in the State.
- Combining big data/analytics technologies with real-time data feeds (i3 logging/ESInet) for improved interagency coordination and development of 'the right' resources.
- Ensures real-time situational awareness at both Local and State levels
- Enables enhanced early warning threat identification
- Supports faster inter-agency resource deployment at drastically reduced response times
- Offers, in some cases, the potential to proactively prevent loss of life, infrastructure or property.

5.3 OPERATIONAL REPORTING AND LOGGING

The system shall provide access via Crystal Reports or a similar reporting tool to all data elements via a reporting server. Queries must be restricted to the reporting server which shall be as current or near real time as is practicable.

At a minimum, the following data elements shall be logged and readily available for reporting purposes at the system level and at the ECD/PSAP level:

- Payload processing times
- Answer time
- Disconnect time
- Incoming IP address
- Pre-Defined Reports – restricted to PSAP(s) based on user role
- Total count of Payloads by Type
- Average Event Waiting Report
- Average Event duration
- Total Abandoned Events
- Events by incoming IP address
- Events by hour of day
- Events answered by user ID
- Events by day of the week
- Events transferred
- Event transferred to PSAP
- Position answered
- Events answered by position
- Events answered by all positions
- Agent availability report
- Call volumes
- Individual Call detail Information
- Summary of Call Loads

Respondents shall provide examples of operational reports and describe the ability of the system to capture, store and report on these data elements.

Comply.

Payload Processing Times: The payload processing time is calculated from the time the payload enters through the BCF until the call is routed to the PSAP via the ECRF.

Position answered: The position that answers each event will be recorded and reported on through the Initial Station Total Calls report. This report provides hourly counts for each answered event by position/station. In addition, the position that answered each event is a field in the ad-hoc system. A user has the ability to filter by position, or to simply include position number as a field in a report.

Answer time: Answer time is calculated from seizure to event answer using the Call Handling supplied meta data. This is a field included on the Average Duration report, and is also used to create the PSAP Answer Time report.

In addition, answer seconds are a field available in ad-hoc. Users can include answer seconds, search by a specific range of answer seconds (such as <15 seconds), look at answer seconds for a specific position or operator, or build averages.

Disconnect time: The disconnect time of a call is the total time of the call, which is also the duration value. MIS uses the duration as the disconnect time (or computed time value Time of call + Total duration of seconds) and these values can be found both in the Average Event Duration report or accessed as an ad hoc value .

Incoming IP Address: The incoming IP address of each event will be stored as the field 'Incoming IP Address' and will be reportable through ad-hoc. This will allow the user to filter or search by a full or partial IP address. Users can build customized reports, including desired associated information.

In addition, the 'Events by Incoming IP Address' report will provide totals by incoming IP address for the date range selected (see Events by Incoming IP Address).

Total Count of Payloads by Type: Each event will include an indicator of payload 'type'. The 'Total Count of Payloads by Type' report will provide total counts by payload type, and the overall number of payloads for the date range selected. The report may be customized to contain additional relevant/desired information.

Payload types are as follows:

1. Audio
2. Video
3. Real-Time Text
4. TTY (Baudout Tones)
5. Instant Messaging
6. NHI Events (Non-Human Initiated)

Average Event Waiting Report: The average event waiting time can be obtained through the Average Duration report (as well as through ad-hoc).

Average Event Duration: The average duration will be located on the Average Duration report (see Average Event Waiting Time). In addition, duration seconds is a reportable field in ad-hoc and can be averaged and queried against based on parameters set by the user.

Total Abandoned Events: The Event Summary report will provide summary information regarding events, such as the number of events answered, the number of events abandoned, and the percentage of abandoned events. The Event Summary can be ran on each type of event individually, or all event types.

Events by incoming IP address: The 'Events by Incoming IP Address' report will provide total counts by IP address for the date range selected. Once selecting the 'Events by IP Address' report in the parameters screen, the user will be presented with checkboxes used to select the event(s) included in the report. The report may be customized to include additional relevant or desired information.

Events by Hour of Day: The Events per Hour report will provide event counts by hour of day. The hour the event is placed in will be determined by the seizure time of the event. Once selecting the 'Events per Hour' report in the parameters screen, the user will be presented with checkboxes used to select the event(s) included in the report. Some examples of available events are:

1. Audio
2. Video
3. Real-Time Text Messaging

4. Instant Messaging
5. TTY

<u>Events Answered by Position</u>: The position that answers each event will be recorded and reported on through the Initial Station Total Events report. This report provides hourly counts for each answered event by position/station.

<u>Events Answered by All Positions</u>: The events answered by all positions requirement will be fulfilled by use of the Event Summary report. This report will provide overall information regarding the number of events answered (regardless of position). If a user desires to look at all events answered across all stations, the Initial Station Total Events report will fulfill this need (see above).

<u>Events Answered by User ID</u>: If each operator uses a unique user ID, the user ID will be stored as 'Agent' and can be reported against in multiple ways. 'Agent' is an available ad-hoc field, the user can query against answer time by operator, by a specific shift, etc. In addition, operator reports are available such as 'Events by Operator' and 'Operator Speed of Answer'. These reports provide the number of events answered by each initial operator.

<u>Events by Day of the Week</u>: Event reporting by day of week is available through the Events per Hour by Day of Week report. This report provides event counts by day of week as well as by hour of day.

<u>Events Transferred</u>: Transferred events can be reported against in a variety of ways. The first is the Event Transfer report. The parameters interface for the 'Events Transferred' report will also feature a filtering option for 'Wireless' and 'Wireline' transfers.

The report interface will also feature a drop-down menu with three transfer options, 'All', 'Inbound' and 'Outbound'.

Necessary associated information such as location or class of service will be included, as well as seizure time at each PSAP and the duration at each PSAP. The Event Transfer report can be filtered by ANI to easily locate a specific event.

If an event is transferred multiple times, the chaining will be apparent in the report. As displayed below, a call with multiple transfers will appear as a chain with each row representing an appearance of that event at each PSAP.

In addition, transfer counts can be obtained through ad-hoc with the 'Transferred' field. Dialed transfer numbers will be stored for reporting purposes; this will allow any user to determine transfer counts to any outside entity through ad-hoc.

<u>Agent Availability Report</u>: The Agent Availability Report provides information on each operator. Once selecting the 'Agent Availability Report' in the parameters screen, the user can select one or more operators (agents) to be included in the report.

Users will have the ability to build Agent Groups. These groups may contain one or more operators of the user's choice. An unlimited number of groups can be built (for example, to address each shift). The report includes for the entire specified date range:

AL-NG9-1-1-RFP-16-001 ATTACHMENT D- Technical Specifications

1. The number of total hours worked
2. Average Not Ready time per hour (mm:ss format)
3. Average Wrap Up time per hour (mm:ss)
4. Average Ready (Idle) Time per hour (mm:ss)
5. Average Number of Calls per hour

Call Volumes: 911, 10-Digit Emergency and Administrative call volume can be obtained in a single report, the Event Summary Report. The user will select the report, select 'call' as the Event Type, and then will be presented with call type options for the report. The Event Summary report contains wireless 911 and wireline 911 call counts, abandoned call counts, outbound call counts, overall totals and average call duration.

The event type (and all other parameters selected) will be listed in the report header, as depicted below:

Individual Call Information: Each call and its associated information can be obtained through the ad-hoc system. The user can query by using specific filters, or by including all information in the report. In this way, the user can obtain thorough information on each individual call.

In addition, after generating the 'Drill-Down' report, a user may click a call on the report. Upon clicking the desired call, an 'Individual Call Information' report will open in a new window.

Collection of Calls: This report will provide call detail on all calls for the date range selected. The report detail will include:

1. Seizure Time
2. Call Type
3. Inbound/Outbound
4. ANI

Once the report is generated, and calls have populated in the report, the user then has the ability to click on each report in the list. Clicking into a particular call will open a new report with individual call detail. This 'Individual Call Detail' report will provide all information associated with the call, including the raw XML data.

Summary of Call Loads: Summary of Call Loads can be addressed in multiple ways. The first is call volume. Call volume can be addressed through the Event Summary report as detailed above. In addition, call loads can be reported on in terms of the PSAP's ability handle a certain number of incoming or active calls at any given time. The 'Utilization Report' provides data on the percentage of time in a given data range that multiple SIP trunks are in simultaneous use. This provides information as to whether the PSAP continually has ability to handle incoming calls (particularly in a high volume situation), or if the PSAP encounters times where no incoming calls will be accepted.

5.3.1 EVENT REPORTS

Event reporting shall record the timing of transit for each payload for purposes of diagnostics.

All event reports shall, at a minimum, include the functional element being reported and the system time of such event.

The system shall provide, at a minimum, the following event reports:

- Time of payload entry through BCF;
- Time for each functional element to perform routing and PSAP assignment;
- Time of answer at PSAP; and
- Time of disconnect at PSAP.
- A cumulative total elapsed time for payloads to traverse the system.

Times shall be stored as Coordinated Universal Time (UTC) and converted to local time based on the User Profile.

Times shall be stored in 24 hour format including thousands of a second.
2015-07-31 20:51:20.537 UTC – for example

The system shall provide a Time Server on the ESInet using the Network Time Protocol (NTP). PSAPs will be offered use of this Time Server to synchronize the clocks on their 9-1-1 CPE, workstations, etc.

Respondents shall describe their proposed solution for event reporting functionality.

Comply.

MIS will provide an i3 compliant logging service interface which aggregates logs from the Network (e.g., an ESINet) and the Call Handing System to support end to end transaction logging and retrieval. MIS is optimized as a “transaction logger”, capturing meta data for all payloads to provide end to end reports. MIS is compliant to the i3 specification for recording of the transaction meta data. All times captured and computed use the NG-911 international UTC standard and MIS will synchronize with the network clock usd by all NG Functional Elements to ensure synchronized time.

MIS supports an i3 compliant web services interface in addition to the standard web interface for retrieval of reporting and data. All significant steps in processing a call are logged by the Network devices/services and call handling systems and submitted to the MIS logger. Each log contains a transaction ID to support log aggregation for end to end reporting. The MIS logger web services conforms to NENA 8-003 v1 Detailed Functional and Interface Specification for the NENA i3 Solution, Stage 3 Version 1.

MIS supports two options for State and PSAP users to access and retrieve i3 transactions and events. The primary method is via the web interface which allows PSAPs to review and retrieve MIS and i3 Log Replication through the current NG SOAP interfaces.

Access to the log replication web services are an add-on as all reporting features are provided through the MIS MIS portal. Should the log replication services be licensed, the following web services are implemented as defined by the NG-911 V1/V2 specifications.

5.12.1.2 RetreiveLogEvent

5.12.1.3 ListEventsByCallId

5.12.1.4 ListEventsByIncidentId

5.12.1.5 ListCallsByIncidentId

5.12.1.6 ListIncidentsByDateRange

5.12.1.7 ListIncidentsByLocation

5.12.1.8 ListIncidentsByDateAndLocation

5.12.1.9 ListCallsByDateRange

5.12.1.10 ListAgenciesByCallId

5.12.1.11 ListAgenciesByIncidentId

As described above, The MIS platform provides general reporting against the collected network data. Additional customized reporting can be created depending on the needs of the Alabama 9-1-1 Board, but included are the following reports:

Time of payload entry through BCF: Time of Payload Entry through BCF report is shown below. Users can search by a specific time, include or filter by additional desired information, or receive all BCF entry times for a desired time/date range.

Time for each functional element to perform routing and PSAP assignment: End to end Routing Report provides information regarding routing performance and PSAP assignment as shown below. This data is also available for ad hoc reporting. Users can search by a specific event, include or filter by desired information, or receive all ECRF routing assignment times for a desired time/date.

Time of answer at PSAP: Answer time is calculated from seizure to event answer. This is a field included on the Average Duration report, and is also used to create the PSAP Answer Time report using data supplied by the Call Handling system. In addition, time of answer at PSAP is a value available for reporting in the ad-hoc system.

Time of disconnect at PSAP: The Disconnect time, or total call duration, can be found in the above report. In addition, PSAP specific reports also include this information in numerous other reports and via ad hoc reporting.

5.3.2 MAINTENANCE / CONFIGURATION REPORTS

- Lists events by date / time range
- Provides drill down to specific events

Comply.

MIS provides all detailed maintenance and configuration updates based on system health reporting of issues causing data gathering challenges. MIS provides a summary screen of all issues effecting a specific PSAP or a data collector and the ability to drill down into the details of each issue and follow the resolution path and overall results of the maintenance/configuration issue.

SECTION 6 SERVICE/SUPPORT REQUIREMENTS

6.1 CUSTOMER SUPPORT SERVICES

The ongoing operation of the ANGEN system will require customer support services be provided as a component of any proposed solutions.

Respondents must agree to meet the current Service Level Agreements (SLA) being used in the ANGEN network operation and negotiate “in good faith” new SLA’s that meet the expectations of the functionality described in this RFP and the Board.

Customer support services will be required at various levels including the Board, PSAPs, and other system service providers as necessary or designated by the Board.

Anticipated customer support services would include:

- Event management
- Incident management
- Diagnostics and reporting
- Problem resolution/trouble handling
- Network fault monitoring
- Request fulfillment
- Access management
- Remote diagnostics
- Environmental requirements
- Capacity management
- Change management
- Configuration management
- Transition management

Respondents shall provide a description of their proposed customer service support services.

Comply.

FairPoint agrees to work with the customer on SLA's to attain an arrangement that is acceptable to both parties. We understand that customer support is critical at all levels and pride ourselves in being a premier provider of outstanding customer support to our current customers. Through many years of experience in the 9-1-1 industry we have crafted a customer support mechanism that is capable of handling any complaint and resolving any issues in a timely and professional manner. We have a strong team of service managers that will be the primary liaison with ANGEN once the system transitions. They are familiar with all types of support services to include the ones mentioned in this requirement which are:

- Event management
- Incident management
- Diagnostics and reporting
- Problem resolution/trouble handling

- Network fault monitoring
- Request fulfillment
- Access management
- Remote diagnostics
- Environmental requirements
- Capacity management
- Change management
- Configuration management
- Transition management

This team will also play a vital role in handling the transition from implementation to production and understands the requirements to assure that the process runs smoothly.

FairPoint operates a 24X7 customer response center referred to as the FERC (FairPoint Emergency Response Center) which has a 24X7 contact number as well as an extensive help desk portal for ANGEN to use. Typically there are at least a half dozen employees on duty at any given time. The organization has an extensive management team which ultimately falls under the Vice President of Operations. The Service Management team is comprised of at least a dozen members and at least two will be assigned to Alabama to interface with the customer and handle all aspects of on-going system up-keep. Finally, the FairPoint NOC is comprised of a staff of 20 IT professionals that will be monitoring the network and related systems 24x7x365. Similarly both Solacom and GeoComm have 24x7x365 operations to support ANGEN and, Solacom runs a secondary NOC to assure that no network anomalies go unnoticed and to provide back-up should the FairPoint NOC go off line.

6.2 HELP DESK

Respondents shall provide help desk services as a component of their proposed solution.

The help desk(s) shall operate on a 24x7x365 basis and be adequately staffed by resources who are trained and qualified in help desk and customer support services.

The help desk shall serve as a single point of contact for all matters, including without limitation, the system, all components of the system, and any additional system service providers delivering services or components for the network ecosystem.

The help desk must not use an automated attendant or other automated means to answer calls for service or trouble.

The help desk must be accessible via various methods including voice, text, email, and other means as deemed appropriate by the Board.

The help desk shall have the ability to communicate directly and immediately with maintenance and support services for the proposed system and all components of the proposed system, including without limitation, network troubles.

Respondents shall describe and explain their proposed help desk services.

Comply.

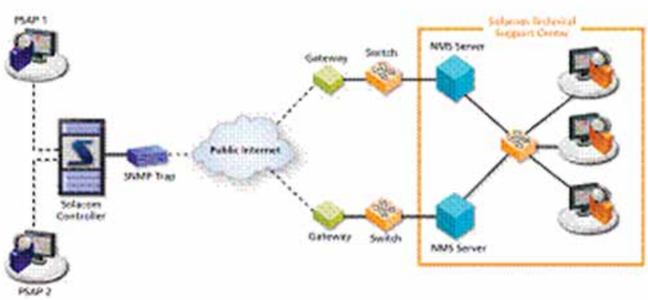
The FairPoint Emergency Response Center ("FERC") is staffed to support 24x7 restoral or mitigation of incidents.

FairPoint has contracted with Solacom to offer reliable real-time response by certified Solacom technicians to stand guard over your system with cost effective, efficient monitoring, 24 hours, 7 days a week, 365 days a year.

The Active Remote Monitoring Service ensures quick response to critical alarms on all system components. Notification of critical events is instantly sent to the Technical Support Center where technicians can then remotely access the system for diagnostic and troubleshooting purposes.

All events are analyzed to rapidly identify performance issues and avoid or reduce any potential system downtime. Notification is sent to all of the specified contact points, including phone numbers and email addresses (exchange server or accounts such as Gmail or Hotmail).

If necessary, the FERC technicians in coordination with the NOC will dispatch FairPoint repair personnel for on-site troubleshooting and fault correction as determined by your support and escalation procedures.



The Technical Support Center monitors the system through alarms which are categorized in 3 levels based on severity. Critical and major alarms are thoroughly investigated and prioritized for expedited response, including a system check to diagnose and validate the incident, as well as contacting the site maintenance prime for liaison and confirmation. Unlike services that attempt to automate alarm classification, Active Remote Monitoring involves actual technicians, trained to investigate and interpret alarms and events. More often than not, it's that personal attention that resolves issues before they can escalate into bigger problems.

Active Remote Monitoring goes beyond simply responding to events. Trend analysis looks for vulnerabilities in the system, seeking to predict required maintenance prior to failure. On the security front, the network management system is monitored and guarded against unauthorized access, intrusion attacks and hacking. A monthly system health report is also provided to help attain optimum performance and take a pro-active approach to maintaining the critical communications infrastructure.

6.3 TROUBLE HANDLING AND TICKETING REQUIREMENTS

Trouble handling and trouble ticket tracking services will be required.

To ensure that all trouble tickets are resolved in a timely manner, respondents shall propose an escalation guideline document that describes the escalation procedure.

The current ANGEN system utilizes the following procedures. Respondents may use this as a guide for their proposed system.

1. **Critical – Network outage**
   - 1st Level Support – Within 15 minutes
   - *Continuous problem resolution/workaround effort*
   - 2nd Level Support – within 2 Hours
   - 3rd Level Support – within 4 Hours or upon Customer request.

2. **Major – Service effecting**
   - 1st Level Support – Within 15 minutes
   - 2nd Level Support – Within 4 Hours
   - 3rd Level Support – Within 24 Hours or upon Customer request.

3. **Minor – Non-service effecting**
   - 1st Level Support – Within 30 minutes
   - 2nd Level Support – Within 1 business day
   - 3rd Level Support - Within 1 week or upon Customer request.

4. **Planned Maintenance/Informational** – Software update, configuration.
   - 1st Level Support – Within 2 Hours
   - 2nd Level Support – Within 5 Business days
   - 3rd Level Support – Only upon Customer or Management request.

Following any critical event or major outage, the Board must receive a root cause analysis within five (5) business days.

Respondents shall provide a description of their root cause analysis process and what documentation is provided upon the conclusion of the analysis.

Respondents shall describe their trouble management and ticketing process.

Respondents shall provide details of how trouble tickets are generated, documented, resolved and reported.

Comply.

FairPoint Communications has a 24x7x365 trouble ticketing system (Remedy) and trouble reporting and clearing processes specific to 9-1-1 support. FairPoint Communications will provide the Board with a dedicated toll-free number to access the FERC for all trouble reporting. The FERC currently does not employ email or text messaging for generating or acknowledging trouble tickets – though these systems are being evaluated for use. Calls to the toll-free number will be answered by a Customer Service Maintenance Center (CSMC) Central Office Technician (COT) who will enter the trouble into our Remedy trouble ticketing system; issue a tracking number to the caller; and, if possible, begin the process of testing the circuit.

If the COT determines that a dispatch is required to a FairPoint Central Office, an outside plant facility, or to a customer site, he/she will collect additional information regarding access to the circuit or facility and will schedule the dispatch via our workforce management tool. This tool provides the capability of dispatching resources to perform installation and repair services. It serves the needs of the Central Office Technicians, and Installation and Repair workforces and it includes capabilities to:

- Plan, schedule and execute field operations
- Manage use of crews and equipment
- Optimize the assignment and dispatch of work to the field
- Monitor work progress
- Manage work order and technician status
- Automate dispatch processes

We will likely adopt the process for mitigation of troubles that ANGEN is most familiar with and that are outlined in this requirement.

The trouble handling procedure is as follows:

Step / Action	Responsible Party
6.1 Incoming 9-1-1 trouble received via dedicated number 1-866-984-3911. In the event a call comes through any other ACD queue and the caller identifies the call as an 9-1-1 trouble, the call will be transferred. The transfer will be directed to the 9-1-1 CDN, to ensure the call goes to the correct queue for the highest Priority. 6.1.1 Take customer report trouble/problem. 6.1.2 Alert (on site) FERC Supervisor.	FERC
6.2 Create Trouble Ticket (Siebel-which verifies status of account and flows to Remedy). 6.2.1 Acknowledge Ticket. 6.2.2 Status update to “Open”/Priority of Urgent.	FERC
6.3 Troubleshoot ticket utilizing job aids and appropriate vendor documentation if needed or by analyzing information given when trouble was placed.	FERC /NOC Supervisor

Step / Action	Responsible Party
6.3.1 Status update to WIP (work in progress). 6.3.1.1 Alert FERC Supervisor. 6.3.1.2 FERC /NOC/COT Supervisor notifies ANGEN within 30 Minutes of Critical Failures. 6.3.1.2.1 Critical determination is driven by a total outage Versus a partial one. Note: Update Board every 2 hours on Critical Failures.	
6.4 Determine if Testing is required. FERC Technician will determine when to use REACT to Help isolate the trouble. Also communication from the caller will help determine if test is needed. If YES, then proceed to 6.5. If NO, then proceed to 6.9.	FERC
6.5 Perform Test (React). 6.5.1 Analyze results. 6.5.2 Capture results in Trouble Ticket. 6.5.3 Is remote resolution by FERC possible? If YES, then proceed to 6.8. If NO, then proceed to 6.6.	FERC
6.6 NO-remote resolution not possible-create a Work Order. 6.6.1 Engage Service Provider when needed for Resolution on PSAP Equipment (insert phone/email)	FERC
6.7 Manage Work Order from Creation to Finish.	FERC
6.8 YES – Remote Resolution by FERC is possible. 6.8.1 Contact ANGEN to notify them of Closure if classified as Critical alarm.	FERC

Step / Action	Responsible Party
6.8.2 Update Trouble Ticket to close. 6.8.3 Notify customer of originating trouble ticket that problem has been resolved.	
6.9 Need to Check Network? If NO, then see 6.5.3. If YES, then proceed to 6.10.	FERC
6.10 Prepare ticket for NOC and follow up with verbal notification of ticket pending.	FERC
6.11 NOC Acknowledges Ticket. 6.11.1 Is Remote Resolution Possible? If NO, then return to 6.5.3. If YES, then proceed to 6.12.	NOC
6.12 Resolve Event Remotely. 6.12.1 Is Issue Resolved? IF NO, then return to 6.5.3. 6.12.2 After test calls are made with all calls completing the Issue is resolved, proceed to 6.13.	NOC
6.13 Contact Board to notify Closure if classified as critical alarm. 6.13.1 Notify customer of originating trouble ticket that problem has been resolved.	NOC
6.14 Update Trouble Ticket to Close.	NOC

Major events that require an RCA will be managed by the service management team. They will gather information about the cause of the event, what was impacted and the steps utilized to resolve the event and keep it from occurring in the future. They will compile this information in a report and provide to the customer on a timeline that is agreeable to both parties.

The report will provide extensive detail such that the customer will be completely aware of all everything that occurred and systems that were affected.

6.4 TRAINING

Respondents shall work cooperatively with the Board to ensure training programs are conducted for the proposed solution. Respondents shall provide training for the network operations and support functions including:

At the PSAP:

- Network Status Reports
- Help Desk
- Text to 9-1-1 operation
- Trouble Ticketing

At the AL9-1-1 Board

- Network Status Reports
- Help Desk
- Trouble Ticketing
- Root Cause Analysis and review

Respondents shall provide a proposed training plan and sample documentation and materials for the training detailed above.

Comply.

FairPoint Communication's will work with the Board on establishing training programs for the proposed solutions. Please see below for a high level sample training plan. Additional documentation will be provided in Phase 2 or 3 of the evaluation.

Comprehensive training is an essential part of the proposed solution to ensure that not only PSAP call-takers are adept with the proposed products, but even more those supervisors, administrators and AL9-1-1 board personnel are as well. Beyond pure product training, operational procedures and policies including such activities as Help Desk and trouble ticketing will be documented and trained to ensure consistent, reproducible results. A sample training guide is attached.

Training Outline.doc

6.5 MONITORING OF APPLICATIONS AND EQUIPMENT

Proposed solutions will require proactive monitoring of all system components for operation, performance and fault conditions.

The proposed solution shall ensure that all alarms including environmental status alarms are received and monitored in a Network Operations Center (NOC).

Respondents shall describe the tools, methods and procedures that will be used for monitoring.

Respondents shall include a matrix of components that will be proactively monitored, managed and administered.

Comply.

Active Remote Monitoring (ARM), a reliable real-time system monitoring and response service provides cost effective monitoring 7/24 from Solacom's Network Operation Center (NOC). ARM ensures quick response to critical alarms on the system components.

ARM uses several different means and protocols to provide comprehensive monitoring of the system and IP devices.

SNMP (Simple Network Management Protocol) query is used to monitor different Object Identifiers (OID's) to watch over devices. SNMP Traps are captured and generate different alert levels based on pre-defined templates built specifically to monitor the Solacom system.

The monitoring also raises preventive triggers that initiate verification before problems occur. Memory, CPU (Central Processing Unit), Disk, Fan, Temperature, processes are all examples of functions and components monitored by the ARM service. Servers are monitored via IPMI (Intelligent Platform Management Interface) for similar verifications.

Constant presence is monitored via ICMP (Internet Control Message Protocol) to alert on any communication delays that are abnormal. The Network Interface Cards (NICs) of IP devices are monitored to detect abnormally high incoming or outgoing traffic, or traffic with errors.

Individual lines on analog gateways are monitored to detect abnormal usage or Central Office line status change (Disconnect/Reconnect). Network switches, and optionally routers, are monitored at the port level to identify abnormal delays, errors, or high bandwidth usage, including RAM (Random-Access Memory) and CPU usage.

ARM goes beyond simply responding to events. Trend analysis looks for vulnerabilities in the system, seeking to predict required maintenance prior to failure. On the security front, the network management system is monitored and guarded against unauthorized access, intrusion attacks and hacking. We also provide a monthly system health report to optimize performance by taking a pro-active approach to maintaining the critical communications infrastructure. The service automatically generates daily, weekly, and monthly statistical reports. Report formats include graph, bar chart, distribution, and summary.

Component	Monitored
Memory	X
CPU (Central Processing Unit)	X
Disk	X
Fan	X
Temperature	X
Servers	X
Network Interface Cards	X
Analog interface gateways	X
Network switches/routers	X

6.6 NETWORK OPERATIONS CENTER

The proposed solution requires the services of a Network Operations Center (NOC).

The NOC must operate on a 24x7x365 basis for the duration of the contract.

In addition, the NOC shall include the capability to perform remote maintenance and restoration of alarms as necessary.

The NOC shall be the single point that performs continuous monitoring, maintenance and network support services.

The NOC shall interface with the help desk.

The NOC shall be staffed with appropriate technical resources to aid trouble shooting, diagnosis and recovery from issues.

The NOC shall perform monitoring of the entire network, all connections and functional components used to provide ANGEN services.

The NOC shall be equipped with a Network Management System (NMS) that monitors the performance of the network and infrastructure.

- The NMS shall continuously monitor the performance and availability of all devices
- The NMS shall monitor network performance, including throughput, latency, jitter, packet loss, and other parameters deemed necessary by the Board
- The NMS shall monitor the network for network intrusion attempts security breaches and be capable of issuing security alerts when an event is recognized
- The NMS shall create alarms based on thresholds and parameters and distribute alarm notifications appropriately
- The NMS shall monitor the environment at all data centers or points of presence where critical network components are housed to ensure functionality
- The NMS shall monitor ancillary network components such as power utilization and backup power systems

Respondents shall describe the capabilities of their proposed NOC, including the proposed NMS system and provide details regarding its operation and the ability of the NOC to interface with other providers and systems.

Comply. Please see response to 6.7 below.

6.7 ALARM CATEGORIES

The proposed solution shall provide categories of alarms by event types depending on the criticality of the event (i.e. critical, major, etc.).

The proposed system shall allow for the dynamic configuration of notification thresholds as well as the ability to define new alarm categories as necessary.

The system shall provide for the automatic notification of the NOC when alarm conditions are detected.

Different notification and escalation procedures may apply depending on alarm category.

Respondents shall describe how alarms are received and specify what types of alarms are available for viewing/receiving and how and when they are generated.

Comply. GeoComm's software generates Simple Network Management Protocol (SNMP) traps, which are aggregated by the software's monitoring systems.

As part of the project GeoComm will create a list of alarm events and criticality of each. Each alarm event will have action that needs to be taken by the NOC. Alarm types will be dynamic and can be adjusted based on customer preferences.

The proposed solution allows assigning a priority to each possible alarm. The system uses priorities from 1 to 4, 4 being the highest. A sample configuration example is given in the document attached herein entitled Example_Zabbix_Monitoring_List.pdf.

In the proposed system, each alert is based on a profile that includes thresholds and priority settings which can be easily modified. The attached document entitled ARMZabbixCheckOverviewV1_0.pdf provides an overview of the default settings for the different system components.

The offer includes a NOC monitoring system which is automatically notified in case of an alarm condition. The NOC can be configured to send email notification to other systems if required.

The last page of the attached document named Example_Zabbix_Monitoring_List.pdf includes a short summary of actions per alarm priority. Alarms other than those of information priority will trigger a ticket. The ticket process sets the SLA and the notification process which is followed until closure. The ticket escalation and notification processes are summarized in the attached document named OTRS Ticket Process flow Customer V1.4BW.pdf.

The system is equipped with a monitoring tool which locally monitors the system components and notifies a remote NOC when an alarm condition is reached. The NOC automatically raises an alarm if the communication with a local monitoring device is lost. The NOC automatically opens "Tickets" for the support team to take action as per the procedures outlined in the previous paragraph.

6.7 Ticket Process.pdf

6.7 Zabbix Check Overview.pdf

6.7 Zabbix Monitoring.pdf

6.8 SCHEDULED MAINTENANCE

The proposed system requires a scheduled maintenance process.

The process must include a methodology for coordinating and scheduling preventative maintenance activities and how those events are executed.

During scheduled maintenance activities the network and system shall not experience a degradation or disruption.

However, individual components may be taken down for maintenance if an alternate route or redundant system is used to minimize the effect.

Respondents shall describe how their schedule maintenance process will work.

Comply.

Maintenance activities will be scheduled on a regular and predictable basis. A detailed method of procedure shall be developed and agreed to by all stakeholders prior to beginning any maintenance related work. To the extent possible, a quiet time maintenance window shall be established to assure a low call volume during maintenance activities.

The FairPoint Team will diagnose and resolve problems related all hardwares and software within the ESInet. We will fully service and support all software and related access portals (GIS etc.)

As described in more detail in section 4.3, we will work with the state to establish a mutually-agreeable schedule for provisioning the ECRF and LVF with updated GIS data. The statewide GIS dataset, along with the GIS Portal and LVF, will be installed in an active/passive server environment that will ensure the system remains active during updates and does not experience service disruptions or delays during maintenance. We will implement similar procedures when maintenance is performed on other functional elements however, the frequency of updates and maintenance on those elements are far less than that which is required for the GIS related platforms.

As new versions of GeoLynx Spatial Router and Solacom Guardian are released, we will work with the state to schedule software updates. As with all critical FE's on the system software licenses will be installed in an active/passive server environment that will ensure the system does not experience service disruptions or delays during routine maintenance or updates. Additional costs apply for upgrades.

SECTION 7 ELECTRICAL, WIRING, AND CABLE REQUIREMENTS

7.1 ELECTRICAL

Successful respondents shall provide and maintain all electrical, wiring, and cable services necessary for their proposed system.

Successful respondents shall provide electrical services as follows:

- Supply and install where needed and otherwise maintain existing complete electrical power distribution system for all equipment supplied.
- Provide adequate surge protection, grounding and lightning suppression devices to protect equipment from unnecessary interruption.
- Provide and maintain a minimum level of thirty (30) minute uninterruptible power supply for all equipment supplied.

Respondents shall provide all necessary cabinets, tables, stands, or other required mounting facilities for their proposed system.

Respondents shall adhere to FCC and all local codes and ordinances in all matters pertaining to the work.

Comply.

FairPoint Communications has a great deal of experience in managing the installation of electrical systems necessary to support NG9-1-1 systems. We understand that we will provide all the electrical requirements to include wiring and cable services, power distribution systems, UPS systems (to maintain power for at least 30 minutes) and surge and grounding protections. We agree with all aspects of this requirement. It is critical that the system not be impacted by power related events and we take the utmost care in assuring that our systems our rock solid in this regard. A site survey and system audit will be required to provide a price quote on as needed basis.

7.2 ELECTRICAL INTERFERENCE

All devices proposed for the system shall be provided with any and all necessary connecting cords and cables conforming to National Electrical Manufacturers Association (NEMA) codes.

The system shall not cause interference to the existing radio, security, or closed circuit television communications systems, installed communications console equipment, or other data processing equipment present in the operational environment, and, in addition, shall comply with all applicable FCC standards as applied to data processing equipment.

Comply.

Fairpoint will comply with the NEMA requirement codes for connecting cords and cables and will ensure that the electrical systems are sufficiently shielded so as not to create any interference with other systems co-located in the data centers or PSAPs. A site survey and system audit will be required to provide a price quote on as needed basis.

7.3 WIRING AND CABLING

All interface connections and visible cables shall use standard EIA connectors secured by wall plates where exposed.

All cables shall be clearly marked and/or numbered in a manner that reflects a unique identifier of the cable at both ends.

Any cables used shall be plenum rated where required by local building or fire codes.

Respondents shall ensure that all equipment is connected to emergency AC power and is configured to be supported by a UPS.

Cabling, communications outlets, power wiring, system grounding, conduit facilities, and equipment rooms shall be installed in accordance with national standards and applicable local codes.

Minimum standards used in the installations shall include, but are not limited to, the following:

- ANSI/TIA/EIA-568 - Commercial Building Telecommunications Wiring Standard
- ANSI/TIA/EIA-569 - Commercial Building Standard for Telecommunications Pathways and Spaces
- ANSI/TIA/EIA-606 - Administration Standard for the Telecommunications Infrastructure of Commercial Buildings
- ANSI/TIA/EIA-607 - Commercial Building Grounding and Bonding Requirements for Telecommunications
- Building Industry Consulting Service International, Telecommunications Distribution Methods Manual
- National Electrical Code (NFPA-70)
- FCC Rules and Regulations, Parts 68 and 15

Comply.

FairPoint's proposed solution will meet the required installation guidelines. Our proposed solution meets industry best practices and standards. They shall include, but are not limited to, the following:

- ANSI/TIA/EIA-568 Commercial Building Telecommunications Wiring Standard;
- ANSI/TIA/EIA-569 Commercial Building Standard for Telecommunications Pathways and Spaces;

- ANSI/TIA/EIA-606 Administration Standard for the Telecommunications Infrastructure of Commercial Buildings;
- ANSI/TIA/EIA-607 Commercial Building Grounding and Bonding Requirements for Telecommunications;
- Building Industry Consulting Service International, Telecommunications Distribution Methods Manual;
- National Electrical Code (NFPA-70);
- FCC Rules and Regulations, Parts 68 and 15; and
- Applicable grounding standards.

The installation will be carried out in compliance with industry standards and regulations, installation technicians use demonstrated best practices to ensure that the system will be installed to the specifications detailed in this requirement.

The system will be installed in accordance with the final engineering plans and implementation plan. A project manager and onsite project supervisor oversee the installation and validate that it is being conducted in alignment with engineering plans.

Structured cabling will be installed, tested and labeled in accordance with industry standards. Cable management will be employed to protect cables from damage. Velcro fasteners are used to secure cables as required. A site survey and system audit will be required to provide a price quote on as needed basis.

7.4 GROUNDING

The proposed system shall provide surge and lightning protection for all connections to AC power.

All hardware and peripheral devices shall be mechanically and electrically grounded to prevent both user hazard and loss of data or hardware integrity due to external electrical impulse.

Respondents shall ground all equipment in compliance with manufacturer recommendations and applicable standards.

Respondents shall furnish and install the required grounding and bonding conductors where necessary and complete the connections to the grounding system at all sites.

Comply.

As noted previously we will adhere to the ANSI/TIA/EIA-607 Commercial Building Grounding and Bonding Requirements for Telecommunications along with any local grounding requirements. A site survey and system audit will be required to provide a price quote on as needed basis.

7.5 TRANSIENT VOLTAGE SURGE SUPPRESSION

In addition to primary protection, secondary Transient Voltage Surge Suppression (TVSS) shall be installed with the proposed system where appropriate.

Respondents shall implement TVSS that meets the following criteria

- TVSS devices shall be installed on all equipped ports that are connected to; or may be connected to wireline or wireless facilities.
- The secondary TVSS devices shall be listed with a maximum clamping voltage of 250 volts (.5kV) or less and operate in less than 10 nanoseconds.
- All TVSS devices shall meet UL497A requirements and shall have an operational indicator to alert maintenance personnel that the device has been utilized, failed or that the circuit is unprotected.
- The secondary TVSS shall not degrade the audio signaling.

Comply.

A secondary TVSS shall be proposed where appropriate and shall support a maximum clamping voltage of 250 volts and will meet UL497A requirements. Furthermore maintenance personnel shall be aware that the device has been utilized by an operational indicator. Finally, audio signaling shall not be impacted by the TVSS. A site survey and system audit will be required to provide a price quote on as needed basis.

SECTION 8 PROJECT MANAGEMENT AND PLANNING REQUIREMENTS

8.1 IMPLEMENTATION PROJECT PLAN

Respondents shall provide a project management plan that identifies the methodology for implementing their proposed solution. The implementation project management plan shall be consistent with Project Management Institute (PMI) best practices.

At a minimum the implementation project plan must include:

- Schedule.
- Change management plan.
- Configuration management plan.
- Communications plan.
- Quality Assurance and Quality Control plan.
- Risk management plan.
- Status report and dashboard tools.
- Proposed Site by site implementation/work plan

The Project Plan will be referred to on a regular basis during the implementation phase of the project to ensure that implementation is completed in a timely fashion.

Any changes to the schedule and work plan must be communicated to the Board through the proposed Change Management process.

The project plan shall clearly define the milestones and clearly identify when the transition from implementation into service management occurs.

Comply.

The FairPoint Team has experience with and understands the importance of creating and properly managing Project Plans. The Project Plan is a tool and a living document used to track, manage, and control the project throughout its lifecycle. In our experience, this plan is much more than a Microsoft Project Schedule. It is a comprehensive plan that outlines details for approaching the project from the risk, scope, communication, procurement, resources, cost, and change management perspectives. Please see the sample project plan below:

A distribution list shall be created encompassing all point members for each stakeholder involved in the project. Notifications and minor discussions of problem resolution can occur on these e-mail distribution lists. Weekly conference calls will be held to cover the existing status of the system during turn up, all stake holders involved shall initially be invited to the calls and then, a determination shall be made on the appropriate people to have on the calls on a week by week basis moving forward (as prescribed by the stakeholders approval). All calls shall be transcribed in to notes. These transcriptions shall be sent to key personnel at the State each week at the conclusion of the calls.

Agendas for each call shall be established and agreed upon in advance of the calls. The overall project Gantt chart shall be made available on line at a secured web site that shall also house other information relevant to the project. All key project personnel or a designated alternate from the FairPoint team shall be available on a 24x7x365 basis.

The program plan will provide a recommendation that will create the required network while minimizing the interference across the various entities and their operations. The program plan will detail the overall project strategy and include sub-plans required to minimize the project constraints (Time, Cost and Scope). Minimally those will include the plans required in this section which are:

- Scope Management Plan
- Staffing Plan
- Schedule Management Plan
- Status Report and Dashboard Tools
- Quality Management Plan
- Communications Management Plan
- Cost Management Plan
- Change Management Plan
- Risk Management Plan
- Configuration Management Plan
- Proposed site by site implementation plan

- Scope Management Plan—FairPoint will create a sub plan to communicate clearly and effectively the scope of the project to all stakeholders. This sub-plan is a part of the comprehensive program management plan and is subject to approval by the Board project manager. Scope management is regularly used to ensure the project remains within the identified boundaries. As part of the Scope

Management Plan, a configuration management system will be discussed that will be engaged during potential changes that arise during the execution of the project. Scope management also contains the Work Breakdown Structure (WBS) that is used to define work packages, sequence activities, and project a timeline for completing the tasks.

- Staffing Management Plan – FairPoint will create a Staffing plan which identifies all of the proposed resources that will be performing activities on the project. The initial staffing plan and organization chart are provided in this section. Specific activities may require additional or specialized support. The program manager and Board project manager will work in collaboration to discuss all additions, subtractions or anticipated specialized staff. The Board project manager will approve or disapprove of any adjustment to the staffing resources whether required temporarily or permanently on the project.
- Schedule Management Plan—FairPoint will create a Schedule Management Plan based upon the WBS activities developed in the Scope Management Planning process. The Schedule management plan sequences the work packages and is displayed on a timeline or GANTT chart. The GANTT chart is used during all status reports and is kept current by the FairPoint program manager using Microsoft project and similar software tools. Changes to the schedule are communicated to the Board project manager along with any changes in quality, risk or customer goals.
- Status Report and Dashboard Tools—FairPoint will create a plan that is used in conjunction with the ability to communicate with all stakeholders on the project. In collaboration with the State of Alabama, our goal is to identify all stakeholders who have an interest, impact, or association with the project. Stakeholders are analyzed to ensure that they are included in the correct manner whether it's direct or indirect communication. This plan will include a matrix of the stakeholders commonly referred to as a RACI chart. The RACI tool clearly shows activities within the project and who is accountable for that task. The remaining components of Responsible, Consulted and Informed apply to the remaining stakeholders. Only one person is Accountable for any activity in the RACI. Furthermore we will be using an Action Item register to track various facets of the project throughout its life cycle to assure that tasks are assigned and progress is made.
- Quality Assurance and Quality Control Plan—FairPoint will create a Quality Management plan that includes measures are taken throughout the implementation oversight project for Quality Assurance. The FairPoint program manager will collaborate with the Board project manager to gather the desired quality metrics and document them in this plan which will be circulated to all stakeholders. This plan will also guide the acceptance testing and final quality control efforts during the project.
- Communications Management Plan—FairPoint will create a Communications Management Plan that details and defines how communications are handled, to what frequency they are conducted and to whom they are intended. Stakeholders who have been previously identified will be linked to the communications plan to ensure information is efficiently and effectively being distributed about the project internally and externally. In addition, the Communications plan will provide for methods for reviewing common project related issues, distributing required information and managing stakeholder communication.
- Change Management Plan—FairPoint will develop a Change Management Plan consistent with the process defined in other sections of this proposal. During the project kick-off meeting, the program

manager will work with the Board project manager to gather stakeholders who may be asked to be members of a Change Advisory Board (CAB). The change advisory board will include, at a minimum, the FairPoint program manager, the Board project manager, and relevant stakeholders recommended by the Board. The change advisory board is responsible for reviewing, discussing and approving all changes to the project. Changes are typically classified as Standard, Normal and Emergency.

- Risk Management Plan- FairPoint will create a Risk Management Plan that is used for planning a complete risk monitoring and control system. Included in this plan are the risk register, risk response plan tools and a risk matrix. The FairPoint program manager collaborates with the Board project manager to quickly identify, assess and develop a response for existing any new risks throughout the project.
- Configuration management plan- A detailed system configuration manual is delivered as part of the site acceptance process. It includes a list of all hardware and software components and contains many as-built diagrams, for example, rack layouts, IP Schema and power circuits. The manual is updated whenever a component is changed in the system and a new electronic version is provided to the Board. The system configuration manual provides support personnel with the system-specific information required to troubleshoot, repair, reconfigure or expand the system.
- Proposed site by site implementation plan- A detailed implementation checklist shall be created for each site based on the unique characteristics of that site. Minimally it will account for two major implementation components:
  - Routers configured for the site, mounted in a rack and clearly labeled and marked.
  - Legacy PSAP gateways (if necessary) configured for the site, rack mounted and clearly labeled and marked.

The data centers shall be implemented in a different manner obviously. All data center cabinets shall be clearly labeled and secured with access to only authorized personnel. Servers within the racks shall be labeled installed in a manner that is befitting of the nature of the cabinet it is in. For example, servers for call routing may be associated with a single cabinet labeled ECRF.

The assigned FairPoint program manager will lead the implementation and operation of the project plan. Based on the PMI – Project Management Body of Knowledge (PMBOK) the project plan is designed to comprehensively monitor and control each stage, phase and task during the project. The process groups within the PMI framework that deliver a comprehensive use of the knowledge areas as defined in the Project Management Body of Knowledge. Once it is deemed final, it is approved by the team and serves as the guide for all activities and tasks for the duration of the project. The approved program plan becomes the formal, realistic program plan that includes a project schedule baseline for the entire project effort.

8.2 SYSTEM TEST PLAN

System testing of any new implementations will be required prior to the Board authorizing any cutover to full operational status and the commencement of payment for services.

Respondents must anticipate and plan for all necessary system testing for each service, component, function, application or piece of equipment comprising the proposed solution.

The proposed test plan shall include, but not be limited to testing for:

- i3 functional element testing
- ESInet throughput and capacity testing
- ESInet end to end connectivity testing
- Fault tolerance testing
- ESInet failover and alternate route testing
- ESInet monitoring systems
- Fault notification
- Firewalls, intrusion detection systems, intrusion protection systems

Respondents shall provide an example system test plan that tests each element of their proposed system.

Comply.

Our project team will provide an acceptance process that tests and demonstrates the feature functionality of the ESInet and NG9-1-1 system to include:

- Call routing
- Call Transfers
- End-to-end system operation
- Network configuration
- ECRF Routing
- Policy Routing Function
- 9-1-1 trunk functionality
- Interoperability
- Integration with legacy systems

FairPoint will populate the test plan with the goals and objectives detailed by ANGEN. The plan will be modified as necessary to add or remove tests and requirements. Tests will be scheduled at the discretion of ANGEN and notification of the tests will occur in advance of the test being conducted. All new software upgrades, patches, fixes etc. can first be loaded on the lab system, where the software can be placed under load and soak testing. In addition the Acceptance test plan can be executed. In the case of the addition of new features with an upgrade the ATP would also require updating to ensure coverage of the new features. An initial ATP will be provided and executed on the production system prior to activation and on the lab system.

Mr. Wilcox, FairPoint's Program Manager, will facilitate all of the tests and manage the process. In addition any documentation regarding the outcome of the tests will be collected and presented to ANGEN.

The acceptance test plan is made up of the following areas and stages:

ACCEPTANCE PLAN TEST ACTIVITIES/PLANNING

- Test Scenario Development
- Record Issues/Defects
- Document Acceptance Test Results

ACCEPTANCE TEST ENTRANCE / EXIT CRITERIA

- Acceptance Test Entrance Criteria
- Acceptance Test Exit Criteria
- Issue/Defect Reporting
- Acceptance Test Summary Report
- Acceptance Test Plan Final Report

NG911 ACCEPTANCE TEST PLAN

ATP STAGE 1: ALI/LIS DATABASE TRANSITION

- WEBDBMS and WebALI
- DBMS Functionality
- ALI Server Functionality
    - Huntsville ALI/LIS
    - Montgomery ALI/LIS
- ALI Links and LIS transactions to Solacom ESRP Platform
- ALI Links and LIS transactions for LPG functionality
- Database Management
- Back Office GIS Requirements - LVF/MSAG

ATP STAGE 2: EMERGENCY SERVICES IP NETWORK (ESINET) & NG CORE FUNCTIONS – ORIGINATING SIDE

- Layer-2 and Layer-3 Infrastructure, Performance, and Quality
- Legacy Network Gateway (LNG) PIF Functionality Only
- Test Basic Inbound SS7 Trunk Functionality to LNG
    - Inbound SS7 Trunk Rollover from each SR
- SIP Trunk failover (as required)

ATP STAGE 3: NEXT GENERATION 9-1-1 CALL DELIVERY SERVICES

- Border Control Function (BCF)
    - SBC Tests
- VoIP inbound 9-1-1 Calls to SBC
- LIF Functionality
- Load Balancing
- Emergency Services Routing Proxy (ESRP)
    - Additional Configuration

- PRF Call flow

- Emergency Call Routing Functions (ECRF)
  - Access the Administrative URLs for Spatial Router
  - GIS Data Provisioning
  - GeoLynx Server GIS Change Requests
  - GeoLynx Provisioning Manager - Ad-Hoc Routing Boundary Change
  - GeoLynx Provisioning Manager - Master GIS Feature Change
  - GeoLynx Provisioning Manager - Master GIS Feature Change: QA Fail
  - GeoLynx DMS Workflow Manager Test Cases
  - ECRF Test Queries
- Location Validation Function (LVF)
- Logging
  - Operational
  - Technical
- Other Network Services
  - Domain Name Servers (DNS)

ATP STAGE 4: CUSTOMER PREMISES EQUIPMENT (CPE)

- Legacy PSAP Gateway (LPG)
- SIP/i3 delivery

8.3 TRANSITION PLAN

The results of this procurement may require a transition from current ANGEN systems, services and providers to new or different systems, services and providers.

Respondents must anticipate and articulate a plan for the implementation, testing and transition of their proposed systems or services to the point of full operational readiness and cutover to full operation.

This plan may need to anticipate the integration with other systems, services and providers that will comprise the ANGEN system depending on what solutions or services a respondent proposes to provide.

Respondents must provide a proposed transition plan for their systems or services in their response that address the following areas at a minimum:

1. Transition schedule including milestone dates for design, development, testing and implementation phases necessary to achieve full operational readiness and cutover to full operation
2. System testing approach

3. Site cutover approach
4. Contingency or roll back plans should implementation or integration failures occur during the transition or cutover of the proposed systems or services
5. Identification of risks, dependencies or interdependencies that may impact the transition to full operational status and cutover
6. Identification and definition of the ability to support a phased migration and parallel operation with current ANGEN operations

Throughout this anticipated transition period, current ANGEN wireless 9-1-1 call delivery, existing features, functions, capabilities and operations must not be limited or impacted in any fashion by the Respondents.

Respondents are required to work closely with other providers and to cooperate to the fullest extent possible in order to accomplish successful transition to the new ANGEN systems and services created by this RFP.

Comply.

Following is a sample transition plan for the ANGEN project (the start date is arbitrary and an actual date for the project to commence will be used once it is known):

Task Name	Duration	Start	Finish
ANGEN NG9-1-1 Project	**372 days**	**Tue 7/5/16**	**Wed 12/6/17**
Project kick-off	**16 days**	**Tue 7/5/16**	**Tue 7/26/16**
Kick-off Meeting	1 day	Tue 7/5/16	Tue 7/5/16
Project Management Integration	5 days	Wed 7/6/16	Tue 7/12/16
System Design Review and Acceptance	**10 days**	**Tue 7/12/16**	**Mon 7/25/16**
System architecture review	1 wk	Tue 7/12/16	Mon 7/18/16
**** Design Milestone	0 days	Mon 7/18/16	Mon 7/18/16
Network planning (TDM/IP)	3 days	Tue 7/19/16	Thu 7/21/16
Finalize ATP and acceptance	2 days	Fri 7/22/16	Mon 7/25/16
Equipment ordering and staging	**153 days**	**Wed 7/6/16**	**Fri 2/3/17**
Develop BOM	30 days	Wed 7/6/16	Tue 8/16/16
Pleace equipment orders	3 days	Wed 8/17/16	Fri 8/19/16
Equipment delivery	30 days	Mon 8/22/16	Fri 9/30/16
Staging - Solacom	**80 days**	**Mon 10/3/16**	**Fri 1/20/17**
IP Network staging	40 days	Fri 9/30/16	Thu 11/24/16
Server and application staging	80 days	Fri 9/30/16	Thu 1/19/17
**** Development Milestone	0 days	Fri 1/20/17	Fri 1/20/17
Equipment shipped to Data Centers	2 wks	Mon 1/23/17	Fri 2/3/17
Circuit provisioning	**210 days**	**Wed 7/6/16**	**Tue 4/25/17**

Data circuit turn-up	90 days	Wed 7/6/16	Tue 11/8/16
TDM circuit turn-up	90 days	Wed 7/6/16	Tue 11/8/16
PSAP router installs	120 days	Wed 11/9/16	Tue 4/25/17
Data Center	**85 days**	**Mon 2/6/17**	**Fri 6/2/17**
Data center prep	2 wks	Mon 2/6/17	Fri 2/17/17
Data center equipment installation	3 wks	Mon 2/6/17	Fri 2/24/17
Optional turn-up of wireless call delivery to existing S/R's	2 wks	Mon 2/27/17	Mon 3/13/17
ALI	**202 days**	**Mon 2/27/17**	**Tue 12/5/17**
Initial ALI extract	3 days	Mon 2/27/17	Wed 3/1/17
ALI Data Prep	3 mons	Thu 3/2/17	Wed 5/24/17
SOI Process Set-up and Testing	2 wks	Mon 2/27/17	Fri 3/10/17
Final ALI extract	3 days	Fri 12/1/17	Tue 12/5/17
GIS	**229 days**	**Tue 7/5/16**	**Fri 5/19/17**
Data Devolpment	3 mons	Tue 7/5/16	Mon 9/26/16
SI (SIF) Provisioning	1 mon	Mon 2/27/17	Fri 3/24/17
Work flow development	2 mons	Mon 3/27/17	Fri 5/19/17
Acceptance testing - Stage 1	1 mon	Mon 5/22/17	Fri 6/16/17
PSAP	**180 days**	**Wed 11/9/16**	**Tue 7/18/17**
PSAP LPG installs	120 days	Wed 11/9/16	Tue 4/25/17
IP call delivery configuration	60 days	Wed 4/26/17	Tue 7/18/17
Acceptance testing - Stage 2, 3 and 4	100 days	Wed 7/19/17	Tue 12/5/17
**** Testing Milestone	0 days	Tue 12/5/17	Tue 12/5/17
Transition	1 day	Wed 12/6/17	Wed 12/6/17
System Soak	30 days	Thu 12/7/17	Wed 1/17/18
**** Implementation Milestone	0 days	Thu 1/18/18	Thu 1/18/18

The transition itself can be broken down in to four major phases:

- Circuit Ordering
- Equipment Ordering, Data Prep and Staging
- PSAP Equipment Installation
- Testing, Transition and System Soak

Each phase is detailed below to include roll back plans:

<u>Circuit Ordering</u>

In order to maintain the integrity of the current system and not disrupt or diminish its capacity it will be necessary to build the new system entirely from the ground up while the old system stays in place and operational. To this extent it will be necessary to instruct the wireless carriers to provision new trunks to the Montgomery and Huntsville data centers. We will begin building out trunking from the seven selective router sites as well. Simultaneously the provisioning of circuits to all of the 118 PSAPs will occur. In the next stage we provide detail of an option that would allow the wireless carriers to transition prior to the complete system transitioning.

Equipment Ordering, Data Prep and Staging

Staging of the servers and related equipment will begin at the FairPoint Team facility after the orders for servers arrive once the order is made on the first day of the contract. Ideally the equipment should be staged and arrive in Alabama at the same time that the circuit and TDM trunks are installed. Meanwhile, GIS data gathering and preparation will commence on day one as well. GeoComm will prep the data for use on the ECRF and LVF platforms once they are available at Solacom's staging facility. Finally, the ALI/LIS prep work will occur once the equipment arrives at the data centers in Alabama. The initial ALI extract will occur within 30 days of the arrival. Orders will need to be written by the carriers to establish a path within the existing selective routers to route calls to the new system. This process will likely have to be negotiated with each carrier however, FairPoint has a plan and the technical expertise to assist in this process with the carriers if needed. Once the data center facilities are on-line we could optionally, begin processing calls from the wireless carriers to the existing seven selective routers. However, this is not our preferred method to handle the transition and could create some temporary diminished capacity while trunks are being migrated to the new system.

PSAP Equipment Installation

The next major phase of the project will consist of the router and LPG installs at the PSAPs. An initial site survey of each PSAP will occur during the equipment staging phase and will be used to guide the equipment install process at each site. We anticipate the PSAPs requiring a very small footprint of equipment to include a half height or wall mount rack, a router and in some cases (most) an LPG (about the same size as a standard router). Depending on site readiness, the actual install will likely take less than a day. We will have several technician's installing equipment simultaneously to keep the installation timeline as brief as possible.

Testing, Transition and System Soak

Once the equipment is at the PSAP is installed we will begin our stage 2, 3 and 4 acceptance testing (described earlier in the document). Stage 1 acceptance testing will occur once the GIS data development is complete, the data sets are loaded and the ALI system is functional. Once testing is satisfactorily completed for all stages, we will transition to the new system in a one day "flash cut". Following the transition, all legacy/current systems will remain in place and available for 30 days should we need to roll back to the old system. Beyond 30 days, the old trunks and related equipment can be taken off line.

Simultaneously throughout this process, a tertiary method of delivering calls should the system go off line will be developed and tested. As it is unclear as to the complete set of options that are available for this function we will have to develop a plan early on in the project to handle.

AL-NG9-1-1-RFP-16-001 ATTACHMENT D- Technical Specifications

8.4 SERVICE MANAGEMENT PLAN

Oversight of the ESInet and network functions after implementation is required. The preferred best practice is to utilize Information Technology Infrastructure Library (ITIL) as a guideline for how services are designed, implemented, managed, maintained and improved within a lifecycle.

ITIL integrates five stages of service delivery into a comprehensive methodology for managing the lifecycle of services.

- Service Strategy
- Service Design
- Service Transition
- Service Operation
- Continual Service Improvement

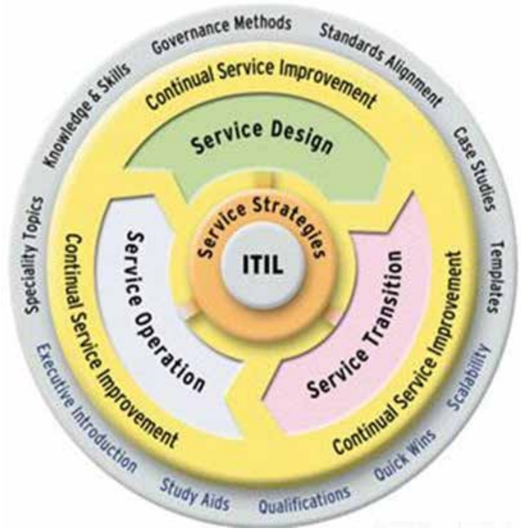
Within these stages, are specific areas relating to Information Technology Service Management.

At a high level, these areas reference how a service maintains availability, capability, capacity, security, manageability, and operability.

Respondents shall describe their approach to service management for the operation of the system. The service management approach shall incorporate components of ITIL or follow industry best practices for IT service management.

Respondents shall provide a narrative of how their proposed service management approach is integrated into their project management activities. Respondents shall discuss their ability to maintain consistent performance and the service levels of the network

Comply. During the implementation of the project several key team members shall be involved. One of them, the service manager for Alabama will work closely with the FairPoint program management team to assure a seamless transition from implementation to production. This assures a continuity of system knowledge. Post implementation, the goal of the service management team is to keep open communications with the customer while ensuring that the internal teams at FairPoint along with our service providers stay focused and aligned with the priorities of the project. The service manager shall be involved with all meetings with the customer and will prepare reports on a regular basis defining the technical and operational conditions of the system. Although one service manager will be working primarily with ANGEN the entire team of service managers are nearly interchangeable and are able to draw on other projects that utilize similar systems to assist the ANGEN service manager in solving problems. This will allow for consistent and predictable performance metrics and achievable service levels. FairPoint utilizes industry recognized best practices from the Project Management Institute (PMI) for delivery of all project components. In addition, we employ the best practices of the Information Technology Infrastructure Library (ITIL) for service management that blends each methodology to offer a comprehensive solution for implementation and ongoing operation.



We will follow the Project Management Body of Knowledge (PMBOK) best practices throughout the project. The PMBOK guidelines will provide sound methodologies for monitoring, controlling and executing the project and managing across the project constraints (Time, Cost and Scope).

ITIL best practices will be combined within the PMI best practices particularly when defining the services provided. ITIL is comprised of five (5) primary efforts as shown in the diagram for each service that is offered.

Using both the PMI and ITIL best practices aligns both aspects of the project (implementation and service operation) into a common structure for effective and efficient delivery of the proposed solution.

- Nothing Follows -